

# Give & Take

News and Ideas for Development Executives of Nonprofit Organizations

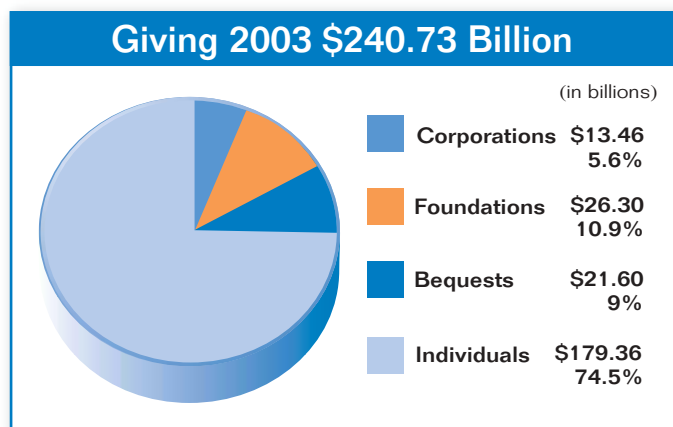
## Giving Reaches Record Levels by Barlow T. Mann and Robert F. Sharpe, Jr.

Newly released *Giving USA 2004* figures for calendar year 2003 indicate that total giving in the United States reached an estimated \$240.73 billion. This figure represents a new record for philanthropic giving in America in the wake of a period of economic slowdown, and it may bode well for continued growth in 2004.

Of particular interest to gift planners is the estimated \$21.6 billion in bequest giving for 2003, compared to a revised estimate of \$19.15 billion for 2002. Overall, bequest income now accounts for some 9% of giving in America, compared to 74.5% from living individuals, 10.9% from foundations, and 5.6% from corporations. (See chart at right.) It should be noted that some organizations receive little or no income from bequests while others receive much higher percentages of their support from this source.

It is not unusual for organizations that have long emphasized the importance of planned giving to receive upwards of 30% of their philanthropic support in the form of bequests. For example, according to reports published earlier this year by the Council for Aid to Education (CAE), bequests to higher education during the 2002-2003 time period represented some 24% of giving by individuals.

While many programs that have recently begun placing emphasis on bequests are experiencing rapid growth in this area, mature programs typically report larger percentages of income from bequests while their growth rates have naturally slowed over time. Experience shows that only a handful of programs that rely on bequests for over 20% of their gift income regularly enjoy double-digit growth rates. The CAE report announced, for example, that bequest income to higher education (where many planned giving programs are relatively mature) actually declined slightly from \$2.3 billion in 2001-2002 to \$2.2 billion in 2002-2003.



It should also be noted that gifts in the form of charitable remainder trusts, gift annuities, and other split-interest gifts established by donors during lifetime are included in the "giving by individuals" category. Thus, a third or more of the planned gifts received by many of the nation's more mature planned giving programs are not reported by *Giving USA* in the "bequest" category.

What lends special importance to the continued growth overall in bequest income is the fact that this may be an early indicator of the resilience of bequest giving in the face of estate reforms ushered in by the Tax Reform Act of 2001. Provisions of the 2001 legislation increased the estate tax exemption equivalent to \$1 million for 2002 and 2003. This had the immediate effect of removing approximately one half of the decedent estates that in prior years would have had to file an estate tax return. (See "Declining Returns" in the June *Give & Take* for additional information.) Thus we are beginning to see indications that previously planned bequests were not removed from newly nontaxable estates following reductions in estate taxes for the masses of Americans.

It would appear that the much-anticipated wealth transfer is continuing to gain momentum, and that charitable organizations continue to be grateful recipients.

### *How they fared*

According to a *Giving USA* survey of a broad range of non-profit organizations, some 55% of charitable recipients experienced an increase in giving for 2003.

*Continued on page 6*

### Inside:

- Dealing with rising rates p. 2
- New study by the IRS on income p. 4



The effects of  
rising interest  
rates

## Planning Matters

After several years of interest rates trending downward, on June 30th the Federal Reserve raised its benchmark interest rate charged to banks by .25% to 1.25%, the first increase in four years. It now appears likely that short-term interest rates will continue to rise gradually in coming months.

Mortgage rates have also begun to climb from levels a year ago, and the discount rate used in charitable gift calculation for split interest gifts is increasing as well.

Rising interest rates will affect donors and gift planners in a variety of ways. For example, retirees and others who depend upon interest rate-sensitive investments will be affected.

Many will see their disposable incomes begin to rise again as interest rates increase. At the same time, others will see the market value of long-term bonds and other interest-sensitive investments go down as rates go up.

Gift planners will find that the relative attractiveness of various gift options will likewise be affected. Low discount rates have made charitable lead trusts more attractive in recent years. A higher discount rate will, on the other hand, increase the size of the charitable deduction for other types of gifts such as gift annuities and charitable remainder trusts.

Gift planners who understand the interplay of rising interest rates on donors and gift plans may thus be more effective than others in the coming months.

### *What you need to know*

Until the late 1980s, the federal government published tables that utilized a fixed discount rate for gift calculation purposes. The fact that the rate was artificially fixed made it possible to take advantage of periodic interest rate fluctuations when planning charitable gifts. In 1989, however, a switch was made to a floating discount rate based upon the "applicable federal midterm rate" (AFMR), the rate of interest the government pays on intermediate term debt obligations. Today, as a result, the discount rate used in the charitable gift calculation process changes monthly and, with the

exception of pooled income fund calculation, a donor may elect to use that month's discount rate or the rate from either of the two previous months.

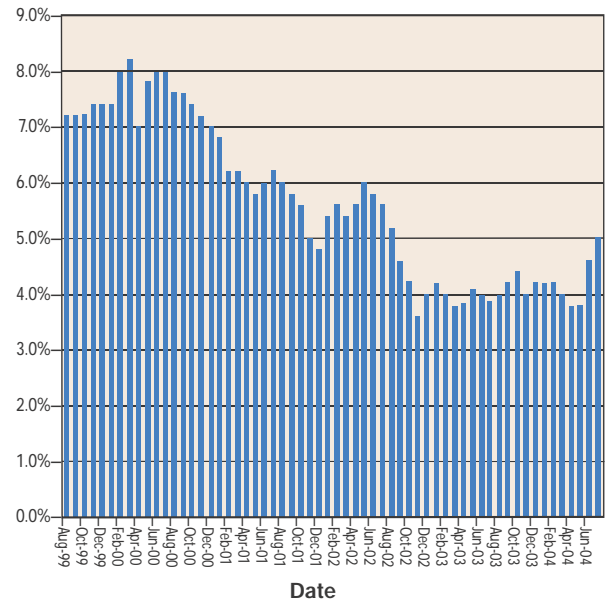
This rate has fluctuated dramatically over the years ranging from 11.6% in 1989 to 3% in 2003. This in turn affects the attractiveness and viability of various gift planning techniques. After a downward trend that began in early 2000, the discount rate has been steadily rising in recent months.

### 2004 IRS Discount Rates

April	3.8%
May	3.8%
June	4.6%
July	5.0%

Note the following chart that depicts the trend in the AFMR over the past five years. The July rate of 5% is the highest that it has been in nearly two years.

### Trend in IRS Discount Rates



Interest rate fluctuations affect different gift plans and the donors they attract in various ways. For example, slight rises in interest rates will have little or no effect on the attractiveness of gift annuities for older persons but may tend to make the lower rates for those in their fifties

*Continued on page 6*

## Give & Take:

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# 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 will be explored in the popular Sharpe seminar devoted to the process of developing and managing effective planned gift relationships. Beginning with how to handle initial requests for information, this seminar 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 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. A few seats remain for the New York City presentation of "Managing Planned Giving Relationships" on August 4-5. Special tuition rates are available for concurrent or previous attendees of "An Introduction to Planned Giving." **G&T**



## Upcoming Seminar Training Dates

An Introduction to Planned Giving

New York  
August 2-3 **FULL**

Washington, D.C.  
October 21-22 **NEW**

Tampa  
November 8-9

Managing Planned Giving Relationships

New York  
August 4-5

Major Gift Planning  
New York  
September 9-10

Strategic Gift Planning  
New York

August 16-17

Memphis  
December 13-14

Multiple registration discounts are available.

For more information or to register, please contact

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Web site:  
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## 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](http://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

*"All presentations were excellent . . . touched on areas that are very high on our interest level at this time. I look forward to having all of our development staff have this learning experience."*

—Roger Bouchard, President, Florida Boys Youth Ranches, Boys Ranch, FL

*"Excellent—wonderful interactive seminar. I'll definitely recommend this to others!"*

—Kerri Melley, University of Rochester, Eastman School of Music, Rochester, NY

*"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

# Back to Basics: Receiving Bequest Distributions

by Christine Sturm-Kirk

**Question: A donor made a charitable bequest to our organization in her will. How long after her death can we expect to wait for the distribution from her will?**

**Answer:** For simple estates, plan for a one-year timeline.

The executor of a will is expected to administer the estate in a “timely fashion” in accordance with the terms of the will. A nonprofit organization waiting to receive a bequest may consider one year to be painfully slow, but given the executor’s wide range of responsibilities, settling an estate in one year is actually very “timely.” A large estate with complex bequests may take two years or longer.

Under normal circumstances, your organization should plan to be in contact with the executor of a will over the initial one-year period. For a simple, uncontested estate, you can usually expect to receive the bulk of your organization’s gift within one year. This calculation is based on two months to open probate, another six months for appraising and converting assets and notifying creditors and a few additional months to accept and approve claims from creditors and distribute the remaining estate property. If the will is contested, this timeline may be prolonged considerably.

Contact the executor at two months to see if probate has been applied for and again within six months of beginning the probate process for an update of how the estate is progressing. If you still have not received a distribution at one year, it is reasonable at that point to contact the executor to determine when they expect the distribution of the estate to take place.

## ***The executor’s role***

The executor has the legal responsibility for the administration of the decedent’s estate. Administration tasks include:

- Initiating probate
- Managing estate assets
- Preparing an inventory and appraisal of all the decedent’s probate assets
- Notifying creditors of the decedent’s death and paying valid claims
- Distributing the remaining assets in accordance with the terms of the will
- Providing the beneficiaries with an accounting under state law of all actions taken that involve estate property
- Closing the estate

## ***Initiating probate***

Filing for probate is the executor’s first responsibility. This process can involve locating the will and potential heirs, providing a copy of the will to beneficiaries, compiling a list of assets and liabilities, and filing the proper paperwork with the courts.

## ***Managing assets***

Following the court’s grant of probate and formal appointment of the executor, the executor must manage the decedent’s probate assets. For example, the executor may need to sell or rent estate property or make financial decisions regarding stock portfolios, business holdings, etc. Ideally, assets that are being sold should be converted within six months. However, if real estate is involved, longer time periods are not unusual.

## ***Preparing an inventory and appraisal***

Another principal duty of the executor is the preparation of an inventory of all of the decedent’s probate assets and to indicate the fair market value of each as of the date of the decedent’s death. Most states allow the executor to value the assets without assistance, but many executors will hire appraisers to value the estate property. This inventory and appraisal helps creditors to determine which assets are available to pay their claims, and allows beneficiaries to determine the property to which they may be entitled.

## ***Notifying and paying creditors***

The executor must alert the decedent’s creditors that the decedent has died. This permits the creditors to take the proper steps to present their claims for payment. Each state has varying requirements regarding how the executor must give this notice (usually by mail, publication, or in person), and how long the creditors have to present their claim for payment (typically six to nine months).

After receiving these claims, the executor will then evaluate the claim and either accept it as valid or reject it. If the executor rejects the claim, the creditor may file suit against the estate to recover on the claim.

At the appropriate time specified by state law, the executor then pays the accepted claims as well as any taxes that are owed from the estate. State statutes provide the executor with a priority order for paying the accepted claims if the estate assets are not sufficient to satisfy all creditors and other claims, such as family allowances. Due to the complexities involved, an executor will often hire a professional to

*Continued on page 6*

## A Year-End Bonus?

by Barlow T. Mann

Year-end giving may receive an unexpected boost from this year's presidential election. Regardless of one's personal party affiliation or preference, the stock market tends to rise in election years.

A rising stock market usually benefits charitable giving in two ways. First, there is a psychological boost from the so-called "wealth effect." People may feel better off financially and therefore more able to make charitable gifts. Secondly, as the stock market goes up, more people hold appreciated securities and are in a position to use them to make gifts in a tax-wise fashion.

According to *Stock Trader's Almanac*, the Dow Jones Industrial Average has risen in 10 of the last 13 presidential election years. The average gain in years of increases was just under 12%:

Election Year	Dow Jones
1952	+8.4%
1956	+2.3%
1960	-9.3%
1964	+14.6%
1968	+4.3%
1972	+14.6%
1976	+17.9%
1980	+14.9%
1984	-3.7%
1988	+11.8%
1992	+4.2%
1996	+26.0%
2000	-3.8%

Source: Stock Trader's Almanac 2004

In the case of the broader S&P 500 index, the average increase in Presidential election years was 9%, with most of the increases coming in the second half of the year.

Note that for the period covered above, the Dow has never been down for two consecutive election years in a row. While past performance does not necessarily predict the future, history would seem to favor an up year for the financial markets in 2004. More importantly, if the Dow stays above the 10,000 level, charities are likely to benefit from the psychological impact of this

benchmark. As a result, now may be a good time to compile a listing of all donors who have made gifts of securities in the past and notify them and others of what may be an opportunity to make special gifts this fall.

### *New report on the wealthy*

The April issue of *Give & Take* reported the findings of a recent IRS study of personal wealth in America. That article focused on individuals with gross assets in excess of \$625,000. That group numbered approximately 6.5 million in 1998.

A new report provides more recent information on high net worth individuals, who are defined as those persons with financial assets of at least \$1 million, excluding residential real estate.

*World Wealth 2004* was commissioned by Merrill Lynch and Capgemini. Specific information concerning high net worth individuals in America is contained in the report. Those included had financial assets in excess of \$1 million, excluding home equity. The number of qualifying individuals in the United States climbed to 2,270,000 persons at the end of 2003. This represents an increase of 272,000 persons, or 14%, when compared to the previous year. These numbers reflect the economic recovery which began in the second half of 2003.


According to the report, these millionaires benefited from both significant gains in their long-term equity positions as well as more recent investments in equities. They were among the first investors to shift from low-yielding fixed income securities back into equities and other investments. Lower capital gain and dividend tax rates may have served to help accelerate those changes. Real estate investments continued to be attractive to high net worth individuals as well.

The report found that primary financial objectives shifted between 2002 and 2003. During the 2001 and 2002 period there was a greater emphasis on capital preservation as opposed to a renewed interest in wealth accumulation and distribution. According to the report, the financial services industry continues to acknowledge the increased importance of philanthropic planning services as a part of comprehensive wealth management. [G&T](#)

## Record Levels...Continued from page 1

Another 8% reported virtually no change in giving, and 37% reported a decline in giving. This is an improvement over 2002, when just 50% of non-profit organizations reported overall increases in philanthropic support.

Religion	35.9%
Education	13.1%
Unallocated	10.0%
Foundations	8.9%
Health	8.7%
Human Services	7.8%
Art & Humanities	5.4%
Public Benefit	5.0%
Environment/Animals	2.9%
International	2.2%

For more information about bequests and other forms of giving, the full *Giving USA 2004* report (researched and written by the Center for Philanthropy at Indiana University) may be ordered from the AAFRC trust for Philanthropy/Giving USA Foundation at [www.AAFRC.org](http://www.AAFRC.org). 

## Back to Basics...Continued from page 4

advise him or her on payment of taxes and other estate claims.

### **Providing beneficiaries with an accounting**

An executor will normally be required to provide all beneficiaries, including charitable legatees, with a copy of the estate accounts. These accounting records will likely be very detailed and require the executor to justify every expenditure and report all income the estate has received. The accounting records are one of your opportunities to identify any problems with the estate. For example, it is prudent to look for asset sales that appear to have been made at less than fair market value, since this may diminish the size of the gift to your organization, especially in the case of residuary bequests.

In some cases, it may be necessary to request that the court hold a hearing to review particular transactions and determine if the accounting records should be approved. In rare cases, an executor may be required to pay back any losses, but this does not typically occur if the executor was acting responsibly and in good faith.


### **Distributing and closing the estate**

If estate property remains after paying creditors and other claims, the executor will then distribute the

## Planning Matters...Continued from page 2

or sixties less attractive. This may signal a need to slightly adjust marketing strategies. With higher interest rates, charitable lead trusts may need to run for a longer period of time or have a higher payout rate to achieve the desired result. On the other hand, as total returns on investments rise with interest rates, an increasing number of donors and their advisors may find that charitable remainder trusts are more viable planning strategies.


During the low-interest rate environment of recent years, the pooled income funds of many charities have languished with little interest on the part of donors. In a period of sustained higher interest rates, however, pooled income funds can be expected to hold new appeal for donors.

The world in which we work is ever changing and affects the type of gifts donors and their advisors are considering. Take time today to make sure that your marketing materials and proposals are accurate and up to date in light of rising interest rates, tax rate changes, and other relevant factors. Materials that contain out-of-date tax rates or ignore changing economic conditions not only reflect poorly on the charitable organization but may actually mislead potential donors and result in future liability. 

balance to the appropriate beneficiaries, including your organization. If there is insufficient estate property to satisfy all of a donor's devises and bequests, the executor will determine which beneficiaries are prioritized by following applicable state law that provides for "abatement" of bequests if insufficient funds remain after payment of taxes and other claims. Once the executor distributes all of the decedent's property, the estate will be closed and the executor will be relieved of further responsibilities.

### **Communicating with a difficult executor**

A number of problems can naturally arise when dealing with a bequest from an estate. While it is advisable to keep your institution's advisors apprised of potential issues as they arise, when at all possible try to resolve the issues with the executor without resorting to legal process. Where possible, assume the best and maintain open, positive, and ongoing communications, and express gratitude wherever possible to the executor. Remember that the executor may be in a position to influence future gifts from friends or relatives of your benefactor.

As one can see, the responsibilities of an executor can be daunting, so while it is proper to be clear at the outset about your expectations, it is important to be patient and understanding as well. 

## Footnotes

### *Taking advantage of stock market gains*

As noted on page 5, since 1960 analysts have observed that stock markets tend to be up in presidential election years. But even in non-election years, most charitable organizations and institutions find that the majority of their gifts come in the latter months of the year. As donors review their overall financial picture and make many tax planning decisions, charitable gifts often take on increased importance. That's why many choose to communicate with their donors about the advantages of making gifts at year-end.

This year Sharpe offers a number of publications designed to help in this process. A Sharpe year-end brochure can be just the timely and tasteful reminder your donors need to inspire them to make a gift before the December 31 tax deadline.

Designed to convey timely information during the busy year-end season, these brochures can be a critical part of your organization's fund-raising efforts this year.

"Giving at Year-End" is offered in two seasonal designs, illustrating the benefits of various types of gifts, including gifts of cash and securities as well as gifts of retirement plans and life insurance.

"Giving Thanks at Year-End" is especially appropriate for those organizations that wish to encourage charitable gifts during the Thanksgiving season.

"Giving Before December 31st" is designed to be sent closer to the end of the year as a final reminder to donors who have not yet completed their 2004 charitable giving plans.

All Sharpe year-end brochures include a helpful chart outlining the advantages of various gifts. They can easily be personalized with your institution's name and logo on the front cover.

The time to plan for the busy year-end season is now. Call 1-800-238-3253 to speak to a Sharpe representative about how Sharpe's year-end brochures can be the centerpiece of your mailings this fall. More information is also available on our Web site at [www.sharpenet.com/yearend](http://www.sharpenet.com/yearend).

### *Newsletter copy released*

For those who prefer to supply more in-depth information on the advantages of year-end gift planning, Sharpe has also released newly updated newsletter copy for use in encouraging such gifts. Contact your Sharpe representative if you are interested in reviewing this copy.

### *Update your gift planning library*

Sharpe also offers a broad selection of booklets and other publications outlining the benefits of giving in various ways. Newly updated to reflect the latest tax law changes and increasing discount rates (see page 2), Sharpe publications have long set the standard for communicating gift planning opportunities in an understandable way while maintaining accuracy. Many publications include helpful technical sections for donors and advisors that feature more in-depth explanations, tax codes, and other relevant citations.

Whether for use in discovering donors who may be interested in particular gift planning options or as part of the fulfillment process and ongoing education of your constituency, Sharpe can meet your needs. Visit [www.sharpenet.com](http://www.sharpenet.com) for a complete description of Sharpe Group publications, or call 1-800-238-3253 for samples or to order your copies. [G&T](#)



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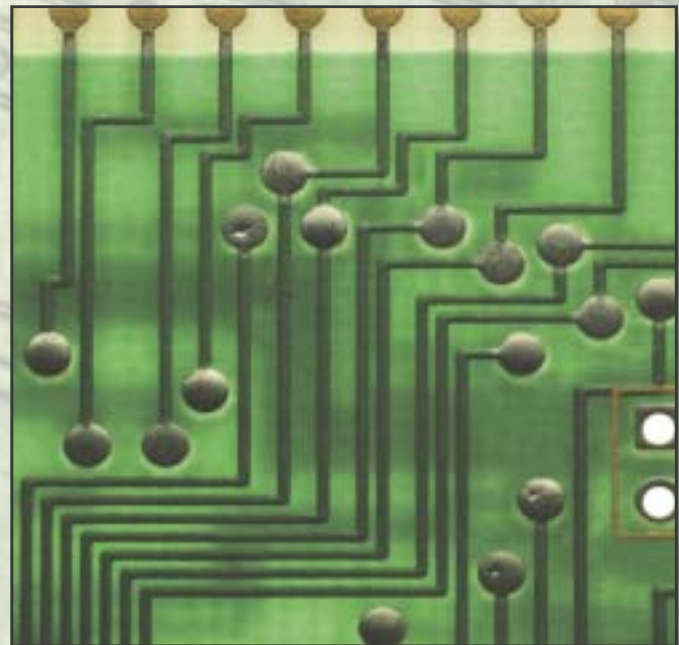


# Integrated Solutions

## Strategic Gift Planning 2004

Experienced gift planners know that every gift results from a complex interaction of economic, social, political, and emotional factors. Successful development officers need to remain aware not only of their donors' personal motivations but also of external factors that can determine how a gift should proceed.

“Strategic Gift Planning 2004” is designed for veteran gift planners who know that the key to success lies in constantly reevaluating how market trends, tax law changes, and recent and proposed legislation affect their donors and their desire to give.



Plan today to attend one of these upcoming presentations of “Strategic Gift Planning.”

New York – August 16-17

Memphis – December 13-14

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*“This was one of the most useful and productive programs that I have attended in years.”*  
—Ed Allenby, Chesapeake Bay Foundation, Annapolis, MD

*“Well done. Salient topics and good written resources. Thanks for the good work.”*  
—Bill Martin, Hamline University School of Law, St. Paul, MN

*“I expected it to be outstanding based on my experience at Major Gift Planning I and II. I was not disappointed. A very valuable program.”*  
—Linda Fischler, Fox Chase Cancer Center, Philadelphia, PA