

Give & Take

News and Ideas for Development Executives of Nonprofit Organizations

Prospects for Philanthropy in 2005

Although 2004 is now behind us, the impact of a variety of economic, demographic, tax, and regulatory factors that affected gift planners in 2004 will continue to be felt this year. For this and other reasons, reviewing some of the events and issues that affected gift planning in 2004 may help set the stage for a more productive 2005. Fine-tuning your program plans and adjusting your strategies now may help maximize your fund-raising results in the coming year.

Impact of the estate tax

On January 1, 2004, the individual estate tax exemption equivalent increased by \$500,000 to \$1.5 million and the maximum gift or estate tax rate fell to 48%. This year the exemption equivalent remains at \$1.5 million, but the maximum tax rate fell another 1% to 47%. In 2006 the exemption equivalent is scheduled to rise to \$2 million. The net effect of these changes and talk of additional tax reform may well lead the wealthy to once again rethink their estate plans. Meanwhile, the number of estates affected by federal estate tax considerations, which fell in 2004, should actually increase in 2005 as a result of a generally improving economy and a corresponding growth in net worth. This will increase the need for gift, estate, and financial planning among the wealthy and near-wealthy. Additionally, the non-tax reasons for estate planning will continue unabated.

Consider alerting your constituents to the fact that they may need to review or revise their plans in light of various state and federal tax law changes that are currently scheduled or may be proposed during the year. Remember that the reduction in the estate tax means that many persons will have more to leave to family, friends, and charity. Individuals interested in maximizing tax benefits may find lifetime transfers more advantageous. For example, a 75-year-old widow who had been

considering a \$50,000 bequest may find the current benefits of a \$75,000 gift annuity to be more attractive based on her circumstances.

Looking back

The economy began to improve in 2003 but then rocked back and forth for much of 2004. Higher interest rates and oil prices were counterbalanced by higher real estate and stock prices to create a mixed economic environment. While a post-election rally saw the Dow Jones Industrial average climb more than 1,000 points from pre-election lows, the Dow closed the year a scant 3% above 2003. This year may bring a similar pattern of fluctuating in the 10,000 to 11,000 range with no clear-cut direction.

The past year saw positive returns for real estate, but there were signs that growth was slowing. Fine art and other collectibles saw solid gains during this period. Net household wealth recovered with the economy and reached a record level in 2004. Unemployment figures have been improving, and the prospects for new college graduates look promising again. In spite of these gains, the economy continues to face a variety of challenges in 2005. The rising federal deficit, a falling dollar, and the challenge of fixing social security are likely to be hotly debated topics this year.

The outlook for gift planners

Overall, the number of wealthy and near-wealthy Americans grew in 2004, which should help major gift efforts in 2005. While the growth of income and assets should boost overall fund-raising totals, expect increased competition for current and campaign contributions.

Make giving to your organization more attractive by presenting a variety of giving opportunities in the hope that one or more may satisfy a donor's particular needs. There may be special opportunities for philanthropically oriented donors to diversify their holdings and minimize taxes through a variety of split interest gifts as mergers and acquisitions continue to increase. Others may simply wish to convert highly appreciated low-yielding assets to an attractive income stream during retirement.

It may be possible to capitalize on economic concerns or uncertainty through planned gift strategies that deal with the particular issues that a donor may be facing.

Inside:

- What you should know about gifts of life insurance p. 2
- A review of gift acceptance policies p.4



Questions and answers about gifts of life insurance

Planning Matters

Life insurance policies are one of the most widely owned yet least utilized assets in charitable gift planning. This is in part due to the fact that some gift planners are reluctant to promote gifts of life insurance after having a bad experience in the past with charitable life insurance programs that promised to raise millions of dollars overnight with little or no effort. Many “vanishing premium plans” resulted in vanishing policies, leading to tremendous disappointment on the part of the donors and charities who participated in them. Certain plans such as Charitable Reverse Split Dollar Insurance were identified as abusive by Congress and the IRS and are no longer permissible. Today, regulatory and professional groups are investigating a number of other charitable “insurance” plans that seem to be primarily designed to benefit insurance companies, agents, and investors rather than charities. However, it is important for gift planners to realize that a number of legitimate opportunities do exist to help donors meet their charitable and personal objectives through the use of insurance. An understanding of life insurance basics may help donors and charities alike. This month’s “Planning Matters” is devoted to answering a variety of questions about the appropriate uses of life insurance for charitable gift planning purposes.

Question: What types of life insurance policies can be used for charitable purposes?

Answer: The proceeds of most life insurance policies may be directed to charity at death, whether they are term insurance or some other type of policy that includes a cash value. They may be new or existing policies.

Question: How might one arrange a gift of life insurance?

Answer: With an existing policy, the policy owner can simply make the charity a beneficiary of the policy. If tax benefits are desired, the owner can make the charity the irrevocable owner and beneficiary of a policy.

Question: What are the benefits of giving a new or existing policy to charity?

Answer: The donor of an existing policy will generally be able to deduct the lesser of the fair market value or the premiums paid prior to the gift. With a new or existing policy the premiums paid following the donation of the policy will generally qualify as a charitable deduction.

Question: What type of donor finds gifts of life insurance to be attractive?

Answer: Gifts of life insurance might appeal to a donor who would like to make a significant gift but does not have sufficient capital assets to do so at this time. The donor may give a new or existing policy with an appropriate face amount and thus fund the gift over a period of time. Depending on the policy selected it may be possible that only a limited number of premium payments will be necessary to sustain the policy.

Question: Can you describe the Life Insurance Wealth Replacement Strategy?

Answer: This strategy involves the use of a life insurance policy to replace assets given to charity through providing for the eventual benefit of the donor’s loved ones. For example, a 61-year-old couple that gives \$500,000 of low-yielding appreciated stock to fund a 5% charitable remainder trust might use the savings from the charitable deduction and/or a portion of the income from the trust for a period of time to fund the purchase of a \$500,000 insurance policy in an irrevocable life insurance trust for the benefit of heirs. In this way, they can provide a \$500,000 gift while still providing for a \$500,000 inheritance.

Although they are not as widely used as other gift planning strategies, gifts of life insurance can be the right fit for donors who may not be able or willing to make another type of gift. The wealth replacement strategy discussed above may be especially appropriate for donors who have concerns about “disinheriting” heirs as a result of making a large charitable gift. Remember to include life insurance in the spectrum of possibilities when discussing gift options with your donors. You may be surprised how many donors may decide they can use gifts of life insurance to fulfill both their personal and charitable goals. G&T

Give & Take:

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Sharpe Seminar Series

Featured Seminar: An Introduction to Planned Giving

This information-packed seminar offers an in-depth introduction to the process of charitable gift planning in today's complex environment. It is designed for those who are assuming responsibility for planned giving for the first time as well as those who have multiple duties and are looking for guidance in the best ways to spend what may be limited time and budgetary resources on planned giving. Beginning with an overview of various types of fund development efforts and the role of gift planning in achieving greater success, this seminar examines the personal priorities

of donors at different stages in life and explains how gift planning vehicles can help remove obstacles to larger gifts from donors of all age and wealth levels. Practical guidance on gift acceptance and valuation policies, program planning, budgeting, and implementation of effective gift planning efforts in programs of various sizes will be presented. This seminar will prove useful to senior development managers and those responsible for other funding efforts, in addition to those who wish to concentrate more effort in charitable gift planning now or in the future. [G&T](#)



Upcoming Seminar Training Dates

An Introduction to Planned Giving

Washington, D.C.

March 21-22

Chicago

April 11-12

Managing Planned Giving Relationships

Washington, D.C.

March 23-24

New York

August 31-Sept. 1

Major Gift Planning

Cleveland

February 17-18

Tampa

May 23-24

Strategic Gift Planning

Memphis

February 7-8

Chicago

March 7-8

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

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'

"Terrific seminar. On time, on target, on schedule. Personable and prepared presenters. Will use the notebook often."

—Caitlin Davis, University of Nebraska Foundation, Lincoln, NE

"I attend a lot of seminars—this is the best one I can remember in a long time."

—Richard Raabe, Wisconsin Lutheran Child and Family Services, Milwaukee, WI

"Excellent seminar which met expectations formulated by advance materials and recommendations of colleagues. Manual is superb reference—succinct and well organized. Thank you for two informative, well-executed days."

—Betty Hungerford, Homeland Center, Harrisburg, PA

Accepting Success by Robert F. Sharpe, Jr.



Robert F. Sharpe, Jr., is president of The Sharpe Group. He advises a number of the nation's leading nonprofits in the design and implementation of their gift planning initiatives.

Most charitable organizations and institutions that rely on charitable gifts for a substantial portion of their funding have guidelines in place for what types of donations will be accepted—and then for what purposes they may be restricted. But in order for such policies to be effective, they must be appropriate for both the particular organization and the current economic environment. Well-thought-out **gift acceptance policies** are especially important for programs that actively encourage bequests, deferred gifts, and gifts of real estate and other non-cash property.

Types of property accepted

In recent years, as investment markets have fluctuated while real estate values have continued to rise in many areas, a number of programs have seen a marked increase in gifts that involve real estate. Some organizations that have policies in place that severely restrict gifts of real estate are taking a fresh look at these guidelines in order to avoid rejecting what may, in fact, be very valuable gifts. Other programs with more lenient policies have learned from experience the need to tighten procedures governing real estate gifts in order to avoid repeating unfortunate mistakes.

How much is enough?

Lower interest rates and yields on other investments have led some programs to review their policies on the maximum payment rates allowed for charitable remainder trusts and lead trusts. These and other plans can suffer unacceptable levels of encroachment of principal if maximum payment rates are set in accordance with expectations that were commonplace in the 1990s.

It may also be necessary to alter default values in software used to project benefits for donors so that they reflect lower total return assumptions. More and more organizations are restricting who is authorized to set investment return assumptions in gift illustrations. Failure to do so can result in the embarrassing situation of a gift acceptance committee's rejection of a gift offered in response to a development officer's proposal.

Administrative expenses may also necessitate adjustments in the minimum amounts necessary to fund a particular gift. For example, assume that the average cost of administering a gift annuity for a particular organization is \$100 per annuity per year. For a \$10,000 gift annuity, that amounts to 1% of the initial gift annuity amount. If the organization pays the 7.1% rate recommended by the American Council on Gift Annuities for a 75-year-old, then a \$10,000 gift annuity that costs \$100 per year to administer should result in a residuum amount of just over \$5,000, or 50% of the amount transferred, assuming the donor lives 12 years. The Council rates are designed to yield an average residuum of 50%, so this is in keeping with the desired outcome.

Suppose, however, that the organization accepts gift annuities of less than \$10,000. As we can see from the chart below, the \$100 per annuity expense is fixed and applies to gift annuities regardless of their amount. A 5% return assumption on the annuity funds may cause some organizations to decide that they do not wish to accept gift annuities in amounts that would yield an expected residuum lower than the recommended levels.

The chart below illustrates why larger gift annuities may yield much greater benefits as a percentage of funds initially transferred than smaller gift annuities.

Gift Annuity Amount	Assumed Earnings	Annual Administrative Expense	Residuum 12 Years	Residuum Percent	Years Until Fund Exhausted
\$5,000	5.0%	\$100	\$1,736	35%	16
\$7,500	5.0%	\$100	\$3,401	45%	19
\$10,000	5.0%	\$100	\$5,065	51%	20
\$15,000	5.0%	\$100	\$8,394	56%	22
\$25,000	5.0%	\$100	\$15,051	60%	23
\$50,000	5.0%	\$100	\$31,695	63%	24
\$100,000	5.0%	\$100	\$64,982	65%	25
\$500,000	5.0%	\$100	\$331,278	66%	25
\$1,000,000	5.0%	\$100	\$664,148	66%	25

Future earnings assumptions must be taken into account as well when setting minimum **ages** for gift annuities and similar plans. Note that as long as earnings assumptions of 5% are met and administrative expense is maintained at \$100 per gift annuity, there is no problem achieving

Accepting Success...Continued from page 4

or exceeding a 50% residuum amount for older donors. If earnings fall to 4%, however, just 1% short of expectations, residuum percentages remain in acceptable ranges for older donors but may fall into negative territory for younger persons.

board or other governing body. This will cover instances where a particular program or service for which funds are restricted is either overfunded or no longer exists.

Gift Annuity Amount	Age of Donor	Payment Rate	Annual Administrative Expense	Life Expectancy	Earnings Assumption	Residuum Percent	Earnings Assumption	Residuum Percent
\$20,000	85	9.5%	\$100	7	5.0%	60%	4.0%	53%
\$20,000	75	7.1%	\$100	12	5.0%	59%	4.0%	46%
\$20,000	65	6.0%	\$100	20	5.0%	50%	4.0%	26%
\$20,000	55	5.5%	\$100	29	5.0%	38%	4.0%	-6%

Gift acceptance policies should thus take into account a number of factors including earnings assumptions, administrative expense levels, the expected time period until receipt of the gift, and others when setting minimum gift amounts and ages for various gifts. Some programs may need to adjust policies that were set at a time when different assumptions were appropriate.

Examining restrictions

Experienced fundraisers know that donors will often give more when they feel they have involvement in deciding how the funds will be used. Organizations that do not allow donors any input in how their gifts are applied can find it difficult to raise large amounts from relatively sophisticated donors.

But just as the economic landscape changes over time, so do organizational needs. In good economic times when an organization is experiencing steady increases in funding, it may be possible to impose a broader range of restrictions on gift dollars than is possible in more challenging economic times. For this reason, sections of gift acceptance policies that address permissible restrictions and minimum amounts required to place restrictions on gifts may also need to be examined periodically.

It can be constructive to take a proactive approach. Rather than actively limiting restrictions on gifts, a better strategy may be to “carve out” a number of areas of interest. Based on various mission components, areas of geographic emphasis, or other discreet “thought sectors,” such proposals can lead donors to a level of comfort regarding the use of their gifts without unduly restricting them.

Also, consider incorporating a statement that enables donors to approve language that would allow the chief executive officer or other appropriate party to alter the use of funds with the approval of the

Keeping the peace

Besides controlling costs and helping to channel funds to appropriate areas of program emphasis, well-considered and current gift acceptance policies can also help maintain harmonious staff relations and foster better relationships between donors and those assigned to steward relationships with them.

By involving staff from development, finance, program administrations, and other areas of organizational management along with volunteer leadership from the board in the process of creating and reviewing gift acceptance policies, a spirit of teamwork and mutual understanding can be enhanced. Those who are not involved in the day-to-day activities of fund raising can gain a greater understanding of what drives the development process before the gift is completed. Likewise, those who work directly with donors can gain a greater understanding of the issues faced by those who must meet the expectations of donors after the funds are actually received.

Policies that are rooted in consensus of senior staff and reduced to written form can also be very beneficial in helping to preserve relationships with donors when a gift must for one reason or another be rejected. If the donor can be furnished with written policies, it is much easier for the fundraiser “on the ground” to handle any negative reactions. Written policies remove focus or blame from the contact person and make it clear that the rejection of their particular gift is the result of policies that had been considered and determined in the past. A donor may even gain a greater respect for the professionalism of an organization that is prepared to quickly respond to an offer to make an unusual gift.

Philanthropy in 2005...Continued from page 1

For example, a term of years charitable trust may allow a donor to “retire” early, while diversifying his or her investments. In other cases, a non-income-producing asset may be converted into a lifelong income stream. Still other donors may be interested in the special opportunities that a gift of life insurance may offer. See “Planning Matters” on page 2 for more on this topic.

That’s the law

The regulatory environment continues to be affected by congressional hearings and tax law changes designed to curtail abuses in the charitable sector. The American Jobs Creation Act of 2004 includes changes that will affect gifts of automobiles, patents, and other types of intellectual property. Charitable boards are likely to endorse stricter standards of accountability in light of Sarbanes-Oxley, the CAN-SPAM Act, and the Do Not Call Registry, in spite of the fact that the full impact of these changes does not apply to charities. In 2005, the charitable arena will likely face ongoing scrutiny. Those in the nonprofit sector should make every effort to avoid actions or transactions that could be categorized as abusive. They should also closely monitor potential problem areas and make sure that the others on staff are aware of them.

That being said, a broad range of gift planning opportunities have the time-tested stamp of congressional approval. Gifts via charitable remainder and lead trusts, pooled income funds, gift annuities, bequests, insurance, retirement plans, and others provide ample room for donors to meet multiple objectives. Sticking to the safe harbors provided by the IRS and Congress may be a better course of action than attempting the latest cutting-edge technique that has little or no proven track record.

Knowing your audience

On the demographic front, the “Greatest Generation” has remained the driving force behind the great wealth transfer. Their generosity will continue to provide for family, friends, and charities in 2005, but the number of those in this age group is rapidly shrinking. Persons who were 20 in 1940 or 1945 are now in the 80-85 age range. The majority of the surviving members of this generation will pass away over the next ten years. The World War II

generation is followed by a smaller cohort group that is often referred to as the “Silent Generation.” The youngest members of this generation are now turning 60, and most of this group has already retired. The oldest Boomers are yet to turn 60 and the youngest are still in their forties.

Adjusting your planned and major gift strategies in light of these demographic changes should increase the likelihood that you will reach the right groups at the right time in their lives to consider various gifts. For example, a will currently drafted by a member of the World War II generation is much more likely to be a final will and testament than a will drafted by a member of the Boomer generation.

You may wish to consider sub-segmenting your constituency by age. Consider something like the following:

Age	Status
Younger than 65	Recently Retired or Considering Retirement
65 to 75	Primarily Active Retirees
Older than 75	Senior Elders

A few extra steps now to ensure that you are presenting appropriate gift planning information to each of these groups can greatly increase the efficacy of your funding efforts in the long run.

Looking ahead

At present, there is every reason to feel confident in the prospects for philanthropy for the remainder of 2005. The response of American donors to global disaster relief efforts in the wake of the Asian tsunami is an indication of the generosity of Americans when faced with a legitimate and compelling cause. It becomes ever more clear that donative intent is indeed the primary motivation for charitable gifts. Those who are involved in important social, religious, educational, environmental and other causes who communicate their needs to the appropriate constituents are likely to find that their needs will be met. G&T

Accepting Success...Continued from page 5

Finally, gift acceptance policies can be an excellent tool for training new and existing staff. After updating policies each year, consider holding a series of staff training sessions to explain any changes. New staff will gain confidence, and veterans will feel reassured that their management is in tune with the times. All staff will feel that your organization has taken all steps possible to assure that they can relate to donors in a way that communicates a commitment to the highest levels of service and excellence. G&T

Editor’s note: Learn more about gift acceptance policies and other important issues in Sharpe’s popular seminar “An Introduction to Planned Giving.” See page 3 for details on this seminar and page 8 for a listing of all Sharpe seminars in 2005.

Footnotes

Use tax receipts to encourage new gifts

As donors begin to organize their paperwork in preparation for the April 15 tax deadline, you may want to consider resending acknowledgment letters and/or receipts for gifts of \$250 or more. Your donors will appreciate your thoughtfulness, and you will have the chance once again to thank them for their generosity.

You may also want to take this opportunity to encourage new gifts by enclosing Sharpe's booklet "A Guide to Giving in 2005." Designed with a broad range

of donors in mind, this booklet provides an overview of giving options from gifts of cash, securities, and bequests to other gift plans that are often overlooked and underutilized, such as gifts of life insurance and retirement assets (see page 2 for more on gifts of life insurance). "A Guide" also explores important factors that can affect the size of gifts, including how to choose the best assets and timing for gifts.

The best prospects for future giving are those who

have given in the past—particularly within the last year. Don't miss this opportunity to strengthen your relationship with your best donors. Call 1-800-238-3253 to speak with a Sharpe representative today, or visit www.sharpenet.com/aguide for more details on this booklet.

Questions & Answers series

If you are looking for a way to send valuable information to a broad range of donors in a cost-effective manner, turn to Sharpe's new Questions &

Answers brochure series. Featuring questions and answers about many of the most popular charitable giving plans, these brochures are designed to be used as an educational tool for use in encouraging gifts of retirement plans, bequests through wills, gift annuities, and various life income plans. Sharpe's Questions & Answers brochures offer an easy way to provide prospective donors with answers to questions they may have as they decide which plan best fits their needs.

Experienced fundraisers 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 many of the most popular gift planning tools. These persons often need information to help round out their knowledge, eliminate possible confusion, and help motivate them to make a gift.

Sharpe's new Questions & Answers brochures are 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 an economical solution to those who wish to reach beyond the relatively small group of persons who may be receiving a more in-depth planned giving newsletter from your organization and/or other charitable interests. Consider accompanying the brochure with a cover letter from a recent donor. Include a response card for easy access to additional information.

You may also wish to include Questions & Answers brochures in gift acknowledgment letters with a postscript suggesting that donors 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.

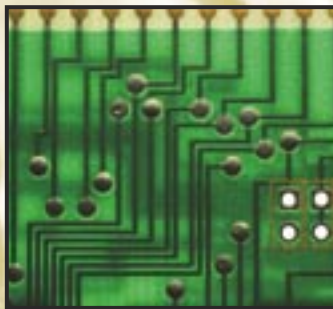
Questions & Answers brochures are available with a standard cover design as well as several alternative covers pictured at www.sharpenet.com/qa. As with all Sharpe publications, these brochures may be personalized with your organization's logo and contact information. For more information, a proposal for use, or to place an order, return the enclosed card, call 1-800-238-3253, or visit www.sharpenet.com/qa. 



News and ideas about The Sharpe Group's services.



THE SHARPE SEMINAR SERIES



Training Schedule 2005

January

An Introduction to Planned Giving	New York	Jan. 24-25
Managing Planned Giving Relationships	New York	Jan. 26-27

February

Strategic Gift Planning	Memphis	Feb. 7-8
Major Gift Planning	Cleveland	Feb. 17-18

March

Strategic Gift Planning	Chicago/Oak Brook	Mar. 7-8
An Introduction to Planned Giving	Washington, D.C.	Mar. 21-22
Managing Planned Giving Relationships	Washington, D.C.	Mar. 23-24

April

An Introduction to Planned Giving	Chicago/Oak Brook	April 11-12
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May

Major Gift Planning	Tampa/St. Petersburg	May 23-24
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June

An Introduction to Planned Giving	Boston	June 27-28
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August

An Introduction to Planned Giving	New York	Aug. 29-30
Managing Planned Giving Relationships	New York	Aug. 31-Sept. 1

September

Major Gift Planning	New York	Sept. 8-9
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November

Major Gift Planning	Washington, D.C.	Nov. 7-8
An Introduction to Planned Giving	Tampa/St. Petersburg	Nov. 14-15

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