

Give & Take

News and Ideas for Development Executives of Nonprofit Organizations

The Widows' Might by Robert F. Sharpe, Jr.

In the last few years there have been a number of reports in the press about significant bequests from the estates of widows—most notably the \$1.5 billion bequest last year from the estate of Joan Kroc, widow of the founder of McDonald's. Are such significant gifts from widows just isolated events, or do they represent a trend that should be noted by those who are responsible for encouraging funding to America's nonprofits?

We believe that charities will increasingly benefit from gifts from widows' estates and that these bequests will indeed represent a major part of the funding of many organizations and institutions in coming years.

Following the money

Women make up more than half of the American population and far more than half of the donor population of most charities. And given women's longer life spans, the older the donor base, the higher the percentage of women. It has been reported that women control 80% or more of household spending and own over 60% of the assets in America. As men of the GI generation continue to pass away in larger numbers, we can expect even more assets to be controlled by older women. Persons of average means tend to leave all of their assets to a surviving spouse out of necessity, while the wealthy are encouraged to do so by the unlimited estate tax marital deduction. The ultimate disposition of a married couple's property is thus determined in most cases by the surviving spouse (typically a woman) at her death.

It should not be surprising, therefore, that 70% or more of bequests to nonprofits come from the estates of women. Women are also responsible for the vast majority of charitable gift annuities and many other types of planned gift arrangements.

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Age differences matter

When working with widows and other women, it is important to recognize that there may be major differences in giving behavior based on age. Women over 70 are less likely to have participated in the work force than younger women. They may have less experience in financial matters than younger women, although in the majority of cases they will find themselves completely responsible for the management of their finances in their later years. Women who came of age following World War II, however, are much more likely to have attended college and participated in the work force and are little different from their male counterparts when it comes to financial matters.

Working with widows

For those responsible for major and planned gift development, the ability to work effectively with older women, particularly widows, may be critical to fund-raising success in coming years. Organizations now embarking on capital campaigns are finding that in many cases the married couples they relied on in past campaigns now consist solely of a surviving widow who is newly responsible for making charitable giving and other financial decisions. To be successful in these and other fund-raising efforts with widows, gift planners should keep a number of points in mind:

- **It is vitally important that the mourning period be respected.** Advisors and experienced fundraisers report that it can be two years or more before a widow feels comfortable considering larger gifts. It can take this long for the estate settlement process to be completed and for her to be familiar and comfortable with her new financial picture. Prematurely approaching a widow for a significant gift commitment can be unpleasant for all concerned and can cause permanent damage to the relationship.

- **When the time is right to approach a widow for a gift, be prepared to "qualify" the nature and level of her donative intent.** In some cases she will make a gift only out of what she perceives as

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Questions and answers about living wills

Planning Matters

In recent months, various stories in the news have caused many of us to consider our own healthcare wishes and plans. Most persons would agree that it would be prudent to take appropriate steps to make sure that their wishes are known in the event that they are unable to speak for themselves. But there are many questions and issues to consider: Are they willing to donate organs to benefit potential transplant recipients? What are their wishes concerning extraordinary healthcare measures if it is determined that there is no chance of a meaningful recovery? Who should make decisions concerning treatment?

To the extent possible, various legal documents that reflect one's wishes can relieve loved ones from having to guess about personal preferences at a time of severe emotional stress. These documents can be an important part of an overall estate plan. An understanding of such documents and how they work, or do not work, is important to gift planners and donors alike. This month's "Planning Matters" column examines living wills and other healthcare-related documents.

Question: What types of legal documents allow individuals to make their healthcare wishes known?

Answer: A broad array of documents can play a role here: living wills, durable powers of attorney for health care, advance directives, healthcare proxies, and other declarations concerning your wishes. State laws generally govern these documents, so it is difficult to generalize on a national basis. Additionally, the 1990 Patient Self-Determination Act requires healthcare providers like hospitals or long-term care facilities that receive Medicare and Medicaid reimbursements to recognize living wills and healthcare powers.

Question: Can you give an example?

Answer: Drivers' licenses in most states allow individuals to make an anatomical gift or organ donation in accordance with state statutes.

Usually this form must be dated and signed by the donor and two witnesses. Nationally, there has been an increase in organ donations that have given the gift of sight or even life for recipients.

Question: Should "living will" language be included in a will or living trust?

Answer: Most attorneys would advise that healthcare instructions be included in a separate legal document and that copies be provided to a number of loved ones. These documents may be amended or revoked at any time prior to death or incapacity. Like the anatomical gift directive, these forms must be signed and witnessed in accordance with state laws.

Question: What, then, is a "living will"?

Answer: It is a legal document that outlines one's wishes to the professionals and facility that are providing health care in the event a person is incapacitated and unable to otherwise communicate with caregivers. Even with a well-drafted living will, questions will often arise, or it may not be presented at the time that medical treatment commences.

Question: How can these questions be dealt with?

Answer: A second document can be drafted to give a specific person the power and authority to act on one's behalf. This document is often called a durable power of attorney for health care, healthcare proxy, or advance medical directive.

Question: Where can a person obtain additional information on living wills and other healthcare directives?

Answer: In addition to the library and bookstore, information can be found on the Internet. Try a search for "living wills" or "healthcare directives," or check www.aarp.org, www.abanet.org, or www.caregiver.org for more information.

Question: As a gift planner, how can I utilize this information?

Answer: Recognize that this topic is an important reason for people to consider their overall estate planning needs. It is relevant to all of your donors instead of just the relatively small group who are concerned about federal estate taxes. While this topic is on people's

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Give & Take:

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SHARPE  GROUP

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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 expand their duties to concentrate more effort in charitable gift planning now or in the future. **G&T**



Upcoming Seminar Training Dates

An Introduction to Planned Giving

Boston
June 27-28
New York
August 29-30
Tampa
November 14-15

Managing Planned Giving Relationships

New York
August 31-Sept. 1

Major Gift Planning

Tampa
May 23-24
New York
September 8-9
Washington, D.C.
November 7-8

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 detailed agenda and dates for this and other Sharpe seminars.

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

"The Sharpe Group 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, Association 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

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How Will Baby Boomers Boom?

by Barlow T. Mann

There has been much speculation about how and when Baby Boomers will embrace philanthropy and whether by their sheer number they can fill the gap that will be left by the extraordinarily generous Greatest Generation. All Boomers have now reached their middle years with the youngest already 40 and the oldest turning 60 this year.

Many Boomers are making more money than ever before, but they are also facing financial pressures that may delay their full participation in philanthropy. Since many of this generation waited longer to marry, start families, and establish careers, their disposable income will be limited until a later point in life. Others, however, have led more traditional lives and are enjoying more wealth than their parents did at the same point in life. These Boomers may form the core of a new generation of major donors.

Regardless, it is certain that the size of the Boomer generation will change the landscape of planned giving in the future. With 10,000 Boomers turning 50 every day, now is the time for gift planners to plan how to bring Boomers into the fold.

Reflections on retirement

It has been over 30 years since the original ERISA retirement plan laws were passed and almost a quarter of a century since IRAs were expanded to include most workers. The Boomers will be the first generation to spend their entire working years under these types of retirement plans, and they may well be the first generation to use them widely for charitable purposes.

The oldest of the Boomer generation, born in 1946, are just now reaching the age of 59½, a critical age under various retirement plans. This is the minimum age at which funds may be withdrawn without a 10% penalty, paid in addition to the income tax that would normally be due.

For these and other reasons, the charitable sector is again aggressively lobbying for the passage of the CARE Act or other legislation that would simplify and encourage gifts from individual retirement accounts (IRAs). The most recently introduced bills and the provisions in the Bush budget provide for outright gifts from IRAs only for those over 70½. Consider, however, that charitable gifts from these assets can also make sense today for those over the age of 59½, even while we await passage of the CARE Act.

Why wait?

In most cases, outright charitable gifts may be arranged from these plans today in a fashion

that would, in effect, result in much the same tax treatment as under the proposed law. The various proposals basically make qualified charitable transfers non-taxable events, which in effect would guarantee a “wash” for tax purposes. A so-called “wash” occurs when there is a tax deduction that fully offsets an otherwise applicable tax liability. For example, suppose someone withdraws \$10,000 from her IRA and gives that money to charity. Under current law, she has \$10,000 of taxable income but is also entitled to a \$10,000 charitable income tax deduction, resulting in no tax liability—hence a “wash.”

To give effectively from IRA funds under current law, donors must be over 59½ (the leading edge of Boomers) to avoid the 10% penalty, and gifts must be structured in such a way that they create a deduction that fully offsets tax liability. This means that gifts must be within the 50% of adjusted gross income (AGI) limitation and that the partial reduction of itemized deductions for some high-income taxpayers must be considered.

Some practical examples

For example, imagine a recently retired couple, both over the age of 59½, with \$100,000 in adjusted gross income. They would like to make an outright gift of \$25,000 and have an IRA worth over \$1 million. Under today’s law, they can withdraw \$25,000 from their IRA and use those funds to make the gift, which is fully deductible up to 50% of their AGI. Note that the IRA withdrawal serves to increase their AGI to \$125,000, and the donation amount falls well within the 50% of AGI limit.

Where higher income donors are concerned, planners may also have to consider the limit on itemized deductions. Persons with taxable incomes above a certain amount (\$142,700 for joint filers in 2004) will find that their itemized deductions are reduced by 3% of the amount that their income exceeds the threshold level. For instance, if a donor’s income were \$100,000 over the threshold, his or her itemized deductions would be reduced by 3% of that amount, or \$3,000. Practically speaking, this limitation rarely affects charitable gifts. The \$25,000 gift described above would be unaffected in any event as the couple’s \$125,000 AGI is below the threshold at which the 3% reduction would begin to apply.

Even donors with incomes far in excess of the threshold can usually still benefit from charitable gifts from retirement account assets. Take the case of a donor with \$1 million in income over the threshold. He would find that itemized deductions for taxes, mortgage interest, and other expenses

Boomers ...Continued from page 4

would be reduced by 3% of that amount, or \$30,000, whether or not he made charitable gifts. If a taxpayer in this situation decided to make a gift from IRA assets, the gift would still result in a virtual wash for tax purposes. In this situation, a \$100,000 IRA withdrawal followed by a charitable gift in the same amount would increase adjusted gross income by \$100,000, which would entail a reduction of the taxpayer's itemized deductions by \$3,000. The result is a 97% wash for tax purposes, with just \$3,000 of the withdrawal amount subject to tax. In a 35% tax bracket, some \$1,050 in tax would be due on the \$100,000 withdrawal, but 97% of the withdrawal would be tax free due to the charitable deduction. Keep in mind also that many wealthy donors will have other itemized deductions, such as taxes and mortgage interest, that are, for all practical purposes, "fixed" and would arguably absorb the statutory reduction amount whether or not a charitable gift were made.

Address concerns with careful planning

If the donor is concerned about the size of the gift, or bumping into the 50% AGI limitation, a little gift planning may be the answer. This concern might be addressed by breaking the gift into installments. For example, assume a retired couple with a \$100,000 AGI would like to make a \$200,000 gift from an IRA with a balance of over \$2 million. If they withdrew \$200,000 to make the gift, they would not be able to fully deduct it. Their new AGI would be increased to \$300,000, but their deduction would be limited to \$150,000. However, if they split the withdrawal and subsequent gift into two equal installments over two tax years, the gift would be fully deductible. This could be as simple as making one gift in December of 2005 and the other gift in January of 2006. In a capital campaign setting, the withdrawals and subsequent gifts might be spread over a three to five year period. This could provide a relatively painless way for larger numbers of Boomers who are older than 59½ to arrange five- and six-figure campaign gifts.

Under current law, the deduction for a gift to a split interest plan such as a gift annuity or charitable remainder trust will not serve to fully offset the tax due on a withdrawal from an IRA. For Boomers wishing to arrange a gift to provide an income for life or a term of years, other strategies may be used. We should keep in mind that even if new legislation allows a tax-free rollover to split interest gifts, all of the income from a gift annuity or charitable remainder trust will be treated as ordinary income that will be taxed at rates as high as 35%. Boomers might be better served to use their IRA funds to make outright gifts or leave funds in their IRAs and let them continue to compound tax free until their first mandatory withdrawal at 70½.

In the meantime, if a Boomer wishes to fund a split interest gift, it may be better to use other assets that allow them to take a current income tax deduction and enjoy the benefits of partial exclusion of payments from income tax and/or the benefits of using the tier structure of income reporting to take advantage of capital gains and dividend treatment of income at rates as low as 15%. When donors fund a life income gift with cash, stock, or other appropriate assets, they may choose to use that charitable deduction to shelter withdrawals from their retirement plans.

The bottom line

The best prospects for the gifts mentioned above under today's law are persons over 59½ with significant retirement plan balances who would like to make larger charitable gifts. But don't forget to promote beneficiary designations as a bequest substitute that will keep these assets from ever being subject to an income or estate tax.

We all hope the CARE Act will become law, but we have now been hoping for five years or more. With trillions of dollars at stake, it may not be necessary in all cases to wait for pending or proposed legislation to make gifts of retirement plan assets more attractive. Instead, look to the affluent portion of your constituency over 59½. Significant tax planning opportunities already exist under current law, and charities that fail to begin promoting appropriate gifts of these assets may be missing an important "pocket" from which older Boomers can make meaningful gifts today. [G&T](#)

Planning Matters ...Continued from page 2

minds, you may wish to consider marketing on broad estate planning issues this spring and summer. The issue of living wills and related documents may be included in cover letters, brochures, newsletters, seminars, or individual conversations.

Remember that a variety of tax and non-tax factors prompt people to consider their personal planning needs. For example, a person's religious beliefs can be an important factor when deciding the content of a living will. Charities should be very sensitive to the personal nature of issues surrounding a living will when communicating with their constituency on this subject. There has been no shortage of information in the general press about the need to address the relevant issues. In any event, those persons who talk to their advisors about the need for a living will may well end up revisiting their complete estate plan, which in turn may include charitable provisions. [G&T](#)

The Widows' Might...Continued from page 1



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.

an obligation to continue her husband's support and has little or no personal interest or commitment to a cause, even though she continues to support it. In other cases, the spouses shared the interest in a charity and a close relationship can be expected to continue.

- **Consider the particular impact of prevailing economic conditions on widows.** Older persons who are living on accumulated assets tend to invest conservatively and thus live primarily on interest and dividends. In recent years their incomes may have been squeezed, and gifts may not be large as those made in the past. Be careful when asking widows to increase the size of gifts and when executing strategies designed to upgrade donors.

- **Because of the way assets may be invested, widows may be especially interested in gift annuities and other gifts that provide them with a higher, fixed income.** As fewer widows can be expected to be subject to estate tax now and in the future, they may also be interested in replacing a bequest with a life income gift that results in current tax benefits and a secure source of increased income.

- **Especially in the case of wealthier widows, development executives should be prepared to work with one or more advisors** who will often be consulted before making a larger charitable gift—whether current or deferred. These persons will often be longtime family advisors in whom the widow places a great deal of trust. Such advisors can sometimes have what practically amounts to a “veto power” over the gifts contemplated by widows. In some cases, the most trusted advisor will be a child or other younger friend or relative.

- **When working with wealthy widows and their advisors, it can be possible to arrange for very meaningful gifts to be made as part of their financial and estate planning.** Keep in mind that the unlimited marital deduction referred to above results in deferring estate taxes to the estate of the second spouse to die. In the case of Ray and Joan Kroc, for example, the ultimate disposition of their property took place at the death of the surviving spouse.

Practical steps

Virtually every development program should thoughtfully consider how to maintain appropriate relations with the widows in its constituency. In many cases it may be advisable to appoint a staff person to assess the efforts directed toward fund raising from widows.

Care should be taken to make sure that widows are treated appropriately in direct mail efforts, events, major and planned gifts, and campaign activities. One idea that can immediately improve relations with widows is to acknowledge donors based on longevity of giving as well as the amount recently donated. In some cases widows should be given “life membership” in higher level recognition societies based on their long history of support. This can help ensure that they don't feel relegated to a lower recognition status as a result of the death of their husband.

When communicating on the subject of planned gifts, keep in mind that the vast majority of bequests and other planned gifts will come from older women, many of whom are widowed or have never married. As a result, focusing planned giving materials on women should be a habit and not an occasional effort. Most examples should be based on women, and the majority of donor testimonials should feature women. Examples and testimonials featuring male donors should in many cases be the exception to the rule.

Don't forget memorial gift efforts. Some of the largest bequests are given to honor the memory of a deceased spouse. Where possible, include space on reply devices enclosed with current gift appeals that allows a person to designate a gift in memory or in honor of another person.

In the same vein, if a surviving spouse designates your organization to receive gifts in lieu of flowers to honor a deceased loved one, make sure that all gifts are carefully tracked and the surviving spouse is given a list of the donors after an appropriate time has passed. Delivery of such a list in person can be the beginning of a new relationship with the widow or widower and can ultimately lead to a bequest or other planned gift in memory of a loved one.

These are just a few points to keep in mind when working with widows. Many of these suggestions could apply to widowers as well. The primary difference when working with widowers is that there are far fewer of them, and they tend to have a shorter life expectancy. In any event, now may be a good time to reflect on how well your programs are relating to widows and widowers as they will increasingly represent a major source of income for America's nonprofit community. G&T

Editor's note: This article is excerpted from a presentation made by Mr. Sharpe at the AFP International Conference in Baltimore on April 5, 2005. To download a copy of the presentation, visit www.sharpenet.com/resources.

Footnotes

“Questions & Answers” brochures

One of a gift planner’s primary responsibilities is to maintain meaningful contact with donors. Ideally, gift planners would be able to contact each donor by phone or in person through donor visits. But in reality, only a few donors receive this kind of attention—usually donors who have already made a special gift.

What about the others—those who are committed supporters but haven’t yet made a planned gift? Budget and time constraints make it impossible to have personal contact with all of them. So what’s the best way to stay in donors’ minds while still making wise use of your time and other resources?

Sharpe’s popular new Questions & Answers series may be the answer. These six-panel brochures offer a cost-effective way to send meaningful information on planned gifts to all appropriate persons. Though packed with information, the Q&A format of the brochures presents these topics in an easy-to-read and accessible manner.

You may want to enclose a cover letter written by a member of your staff or a donor of a particular type of gift to add a personal touch. In addition, a response device will allow donors to easily request more information.

Sharpe’s Questions & Answers brochures are available on a number of gift planning topics: general estate planning, gifts of life insurance, retirement plans, and securities, gift annuities and other gifts that provide income for the donor, and wills and bequests. All may be personalized with your organization’s logo and contact information.

Like all Sharpe publications, the Questions & Answers brochure series can be fully customized so you can combine the look you want with the valuable

information Sharpe provides. Consider using one of Sharpe’s alternative cover designs (see www.sharpenet.com/qa) or creating your own cover design. Sharpe’s team of editors, consultants, and technical experts are on hand to make sure your final piece has both the visual impact and technical credibility you want.

A sample of “Questions & Answers About Retirement Plans” has been enclosed with this issue of *Give & Take*. For samples of other brochures in this series or other Sharpe publications, please call 1-800-238-3253 to speak with a Sharpe representative.

Flexible billing options

Sharpe’s flexible billing options allow you to plan to maximize your budget’s potential. If your fiscal year ends June 30, consider using excess budget funds that might otherwise be lost to replenish publications or provide the resources to fund training opportunities for the coming fiscal year. Or if funds are scarce now, you can begin to implement plans using Sharpe services now but postpone billing until the next fiscal year. Sharpe’s flexible billing methods allow you to:

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Learning the Basics?

An Introduction to Planned Giving

This information-packed seminar offers an in-depth introduction to the process of charitable gift planning in today's 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 ages and wealth levels.

Special attention is given to the impact of investment market fluctuations in recent years and how that can affect the timing of larger gifts and the properties that donors choose to fund them.

Practical guidance on planning, budgeting, marketing, and other aspects of effective implementation of gift planning efforts is included, along with guidelines for developing gift acceptance and valuation policies. Presenters will also address ways to better integrate planned giving efforts with other funding programs.



Plan today to attend one of these upcoming presentations of "An Introduction to Planned Giving."

Boston	June 27-28
New York	August 29-30
Tampa	November 14-15

"Excellent. Worth the money! Want to attend other Sharpe seminars."
—Jovanna Little, Director of Donor Relations, Stony Brook, NY.

"The Marketing Matrix presentations will be very helpful to me. A great time. Thank you!"
—R. Peter Kilburn, University of Virginia Health System, Charlottesville, VA.

"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.

"Very important information presented in a way that was basic yet not overwhelming to the beginner. Thank you!"
—Kristine Jones, Sears Methodist Retirement System, Abilene, TX.