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Give & Take™

News and Ideas for Development Executives of Nonprofit Organizations

Reinsurance of Gift Annuities—A Primer

In the June 2006 issue of *Give & Take*, the page 1 article "Understanding the 'Gift' in 'Annuities'" explored the differences between charitable gift annuities and commercial annuities. In response to this article, we were contacted by a number of readers who raised a similar question. As one reader put it: "Would not the difference in residuum assumptions you discuss in the article allow a charity to offer gift annuities which it could then 'reinsure' through the purchase of a lower-cost commercial annuity and then realize the difference to meet immediate needs? The charity would then enjoy the money up front rather than years later and reduce the risk of funding the annuity. Thanks for any insight into this."

It can indeed be possible in many cases to do what the reader suggests. This concept, commonly known as *charitable gift annuity reinsurance*, may be a good option for some organizations under certain circumstances.

To understand more about the concept of gift annuity reinsurance, let's start with a basic review of how gift annuities work.

Gift annuities 101

When a donor enters into a charitable gift annuity agreement, the nonprofit organization agrees to pay the donor a fixed amount for life in exchange for an irrevocable gift of cash or other property. Since the transaction is partially a gift to charity and partially an annuity for the donor, the donor is entitled to an immediate income tax deduction, and a portion of the payments are free from income tax as well because they are deemed to be a return of the donor's investment in the annuity portion of the gift.

A donor's gift annuity payments are fixed at the time of the gift and will not vary. In addition, the donor's payments are backed by the full assets of the charitable organization, regardless of changes in the economy. This promise of fixed, secure income payments is very attractive to many donors who would like to provide for a bequest or similar gift to their favorite charitable organization, but also desire a steady source of income in their later years.

Risks inherent in gift annuities

From the donor's perspective, a charitable gift annuity offers a wonderful opportunity to benefit an organization they wish to support while at the same time receiving guaranteed payments for their life and perhaps that of a spouse or another loved one as well. From a nonprofit's perspective, however, a charitable gift annuity does not come without risks.

One risk for the charity involves the investment of gift annuity funds. Most nonprofits "pool" gift annuity funds and invest them in a managed portfolio. When recommending gift annuity rates, the American Council on Gift Annuities (ACGA) assumes that for immediate payment gift annuities the funds will earn 6.25% and that annual administration costs will not exceed 1% of the annuity reserve fund. (For more on the assumptions underlying ACGA rates, see www.acga-web.org.) If returns on the invested gift annuity funds are less than expected, the nonprofit bears the risk that it will not earn the required amounts over time and the fund could thus be exhausted while payments to one or more donors are still due.

Another concern for the charitable organization is that one or more gift annuity donors could live longer than expected. This is something referred to as "mortality risk." Because gift annuity payments are guaranteed for as long as the annuitant lives, the nonprofit is under a contractual obligation to pay them even in the event the annuitant outlives his or her life expectancy. As mentioned in the June issue of *Give & Take*, depending on the age of the annuity donor, there may be less of a cushion on earnings in the case of younger donors who outlive their life expectancy, which in turn could lead to less funds being left for charitable use at the death of the annuitant.

Some charities that began gift annuity programs in recent years now find themselves in a less than desirable position because they began their programs at the height of investment market values. They experienced less than

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- Get ready for the year-end season p.7

Gift Planners Discuss Donor Visits

"The development process is a marathon, not a sprint."

Building relationships with donors is critical to success in development efforts. What better way to establish good rapport with donors than with a face-to-face visit? To find out more about the importance of conducting effective meetings with donors, *Give & Take* asked a group of experienced gift planners to share their tips on the basics of calling on donors.

The panel includes: Susan Goldman, Individual Philanthropy Officer for America's Second Harvest in Chicago; Lindsay Lapole, Territorial Planned Giving Director for The Salvation Army in Atlanta; and Dudley Marble, Major and Planned Gifts Officer for Millsaps College in Jackson, Mississippi.

Give & Take: When do you request an appointment with a donor?

Goldman: If I'm going to a particular city, I try to set up an appointment with a priority donor two or three weeks in advance to work around their travel schedules, etc. For others, I will set appointments maybe two or three days beforehand. This works great for me because I can tell them I just want to stop by and meet them while I am in their area. I will sometimes even wait until I am in the city to arrange a visit if I have some extra time.

Lapole: We set appointments promptly with people who have responded to some sort of promotional effort we have sent out. I try to keep our meeting to $1\frac{1}{2}$ hours at the most. I find that most seniors get tired at that point. In an effort to honor them and their time, I will bring the appointment to a close with a statement such as, "We have talked about a lot of things today. I need to get back to the office and review this and see what other information I need to get for you."

Marble: I like to set up meetings about two weeks in advance. I have found that attempting to schedule them any earlier is a waste of time. When I know I am going to be in a particular city, I request a list of alumni over age 50 who live in that city. This list will contain information about each alum, such as birthdate, hometown, graduation year, family makeup, work history, etc. I am a firm believer in doing your research before you ever get on the phone to request a meeting. Sometimes I have been able to schedule an appointment with a donor simply by mentioning their previous career or other small bit of information from their donor profile.

Give & Take: Do you set particular goals for your appointments?

Goldman: At our first meeting, I want them to get to know me and earn their trust. And I want to find out about them, what is important to them, what makes them feel like they are making a difference by supporting us. I often ask them why they are devoted to our mission and how they found out about us. This information gives me all kinds of avenues for developing a relationship.

During a second meeting, I have had time to prepare something for the donor that is geared toward their interests, based on what I learned during the first meeting. I want to connect them more closely with our organization by focusing on what their passion is, and then showing them how we are meeting the needs in that area.

Lapole: The goal of most first appointments is simply to meet the people, build trust, and to find out more information about them that will help us determine whether there is a basis for us to continue the relationship towards a gift. We do not assume there is a gift there when we meet with people for the first time.

We treat these meetings as very personal discussions. In many cases, we are talking about the most intimate details of a person's life that they don't talk about with anyone else. They are having to make decisions about how they are going to allocate pieces of their estate or who will be executor of their estate. These are very emotional processes, so it is important to maintain integrity, and deserve and respect their trust.

Marble: At the first meeting with a donor, I just go to get to know them. I tell them on the front end that I'm not here to ask for a gift, and that puts them more at ease. Older donors don't like to be pushed. Then I let the donor do most of the talking. I listen closely and try to find out what they are interested in. They all have wonderful

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Give & Take:

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SHARPE GROUP

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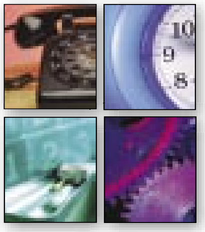
If you have ever wanted to attend the full Sharpe Group training series over a relatively brief time frame, in the same city, now is your chance! New York City will be the backdrop for complete planned giving training led by acclaimed experts in the field.

All four Sharpe seminars—An Introduction to Planned Giving, Managing Planned Giving Relationships, Major Gift Planning, and Philanthropy in Times of Change—will be held in New York with dates beginning in August and ending in November. See below for a complete listing of all seminars and their dates and locations, or visit www.sharpenet.com/seminars.

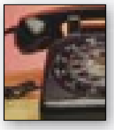
Training nonprofit professionals since 1967, The Sharpe Group offers an unsurpassed training experience. Whether you are just starting out in your role, or need a refresher course or two to enhance your skills, consider spending some time this fall in New York with The Sharpe Group. G&T



Upcoming Seminar Training Dates

An Introduction to Planned Giving

New York, August 21-22
Chicago, October 30-31



Managing Planned Giving Relationships

New York, August 23-24

Major Gift Planning

New York, September 6-7
Washington, DC, November 6-7

Philanthropy in Times of Change

Boston, August 3-4
New York, November 16-17

Multiple registration discounts are available.
For more information or to register, please contact:

The Sharpe Group
Phone: 1-800-238-3253, ext. 5360
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Reinsurance of Gift Annuities *...Continued from page 1*

desired returns in the early years and now have substantial gift annuity payment risks with little cushion.

Reinsure for reduced risk

To minimize the risks associated with offering and administering charitable gift annuities, some charitable organizations decide to purchase commercial annuity policies as a way of backing their gift annuity payment obligations. They may decide to take this approach with all or a portion of their gift annuity obligations, depending on the size of the gift annuity, age of donors, the nature of their mission, and other factors.

Sometimes referred to as "gift annuity reinsurance," this is a process in which a nonprofit purchases a commercial single premium immediate annuity that makes payments equal to the amount owed to the gift annuitant. While the charity is owner and beneficiary of the commercial annuity policy, it is still obligated to make the gift annuity payments for the life of the donor. Reinsurance allows the charity to transfer the main investment and longevity risks to the life insurance company issuing the new annuity.

Let's look at an example of how gift annuity reinsurance works. Mr. and Mrs. Donor, age 64 and 62, have recently entered into a gift annuity in the amount of $1 million. The American Council on Gift Annuities' payment rate is 5.5%, or $55,000 per year. Payments will continue for the life of both donors. They have an estimated joint life expectancy of 27 years. The charity will bear the risk that one or both of the annuitants will outlive their life expectancy and/or the possibility of lower than expected returns on the gift annuity reserve fund. Assuming an estimated return of 8% on funds it is investing outside its gift annuity reserve funds, the present value of the amount the charity anticipates it will receive at the death of the surviving annuitant is just over $100,000.

The charity decides to reinsure the gift annuity with a commercial insurance policy. After payment of the premium, some $200,000 is available to meet the immediate needs of the charity, approximately twice the amount of the present value of the residuum that it is estimated would be received 27 years from now.

Pros and cons

What are the pros and cons of gift annuity reinsurance? Let's first examine the drawbacks:

The charitable organization will realize less money when an annuitant dies earlier than expected. When a donor passes away earlier than his or her life expectancy, the donor will have received fewer payments than the organization planned to make and less of the amount originally contributed will have been returned to the donor as tax-free return of principal. Therefore, at the donor's death, more funds are available for the organization's charitable purposes than was originally expected. If the organization had opted to reinsure, the overall amount received would be less than if self-insured.

A charity may be able to achieve higher rates of return on its gift annuity reserve investments. Some organizations have enjoyed stronger investment performance on their gift annuity reserve pools over the years, allowing the nonprofit to maximize the remaining gift amount. These organizations may realize more from their annuity program versus reinsurance due to the excess return generated by the investment pool.

Some donors may have a negative view of gift annuity reinsurance. Some annuitants may be under the impression that all of the funds they transfer to create their gift annuity will eventually go to the charity. Therefore, some donors may see reinsurance as a "shortcut" on the part of the nonprofit—simply a way for the charity to get a small amount of their money now, instead of what the donor perceives will be a much larger gift at their death. The annuity rates anticipate an average of about 50% of the amount of the gift will remain for charitable use under standard rate setting assumptions. This concept should be thoroughly communicated to the donor.

On the other hand, there are several pros to gift annuity reinsurance, including:

The nonprofit organization's risks are reduced. Through reinsurance, a charity to a large extent shifts the risk of a donor living longer than anticipated to the insurance company that issues the commercial annuity. Reinsurance also reduces or eliminates the risks associated with poor investment returns for a smaller gift annuity program or one that is just starting out. When a charity is organizationally risk averse, or a gift annuity program is relatively new, smaller, and/or the organization is financially constrained, reinsurance may provide the security necessary for success in the gift annuity arena. In some cases where a charity has a number of smaller gift annuity contracts, it may decide to insure the occasional larger annuity if the annuitants are relatively young.

Donors and charities alike want to put a portion of the gift annuity funds to work immediately. The opposite of the drawback listed above, many donors may discover that reinsurance of gift annuities provides a means by which their funds can start working for their charitable interest sooner

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Donor Visits...*Continued from page 2*

stories to tell of their days at Millsaps. When I meet with a donor a second time, usually I bring a proposal or more information about the particular type of gift they are interested in, in case it is appropriate to discuss the possibility of a gift in more detail.

***Give & Take:* Do you ever ask if the donor would like to include others, such as children, in the meeting?**
Goldman: I leave it up to the donor whether or not to invite their children to meetings.

Lapole: We seek to identify in that first appointment who the "giving influences" in the transaction may be. That could be the donor's children, neighbors, brother-in-law, attorney, CPA, or others. We attempt to determine the degree of influence each of these giving influences is going to have on the ultimate gift decision. It then becomes our goal to involve, in face-to-face communications, as many of those people as possible, as early in the transaction as possible.


Dudley Marble

Marble: No donor has ever requested that we include family members in our discussions but, if they did, I would include them.

***Give & Take:* When you meet with a donor, what do you take with you?**
Goldman: I usually have one folder with an overview of our organization, and a copy of the most recent hunger study. I put a business card in the folder and I also hand them a business card.

Unless a donor gives me specific names or other particulars I may need later, I don't write anything down in our meetings. I do my best to remember what they tell me and write it down immediately after I get out of the meeting. I try to treat these meetings like I am just having tea with a friend and chatting.

Lapole: I take a folio with some blank paper and a pen. And I get the pen out of my pocket before I sit down, so when I ask them for permission to take notes, I don't have to waste any time fishing around for it in my pockets. I would never take a laptop computer to an appointment. I don't want anything coming between me and the donor that is going to attract attention.

Marble: I often give the donor a hardcover coffee table book about Millsaps, as well as copies of recent Millsaps planned giving newsletters.

***Give & Take:* Anything special to consider about what to wear or etiquette issues when dealing with older donors?**
Goldman: I think it's important to wear conservative, moderately priced clothing—never anything outrageous or "hip." And, I like to let the donor decide where we meet. Most donors would rather meet in their homes. For a second meeting, I offer to take them to lunch.


Susan Goldman

Lapole: We are a uniform organization, so we require that men wear shirts and ties and jackets, and women should wear modest business attire. Having said that, we also expect them to dress appropriately for the situation. For example, if I have a meeting with a farmer where I may be walking through his fields, I would not wear my shirt and tie. I would wear something that my prospect would feel comfortable with in that situation.

Marble: I always wear a coat and tie to meetings with donors. I think the age group that I am dealing with wants to see that, and they appreciate it.

***Give & Take:* How and when do you follow up after the meeting?**
Goldman: I either send a handwritten thank you note or a thank you e-mail if the donor and I have been previously corresponding that way. These thank you's are sent within 24 hours of our meeting. In the note, I also let them know that I will be sending more information about the programs that might be of interest to them that we discussed in our first meeting.

Lapole: I like to follow up with a donor as quickly as possible to keep the process moving. If I need to make a second appointment, I try to make that appointment while I'm at the first meeting. At the same time, we have to remember that after we meet with donors, they often have to then go through a decision-making process. While


Lindsay Lapole

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Reinsurance of Gift Annuities

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rather than later, while still offering the donor a dependable source of additional lifetime income. Much like the donor of an outright gift, annuitants whose gift annuities are reinsured may enjoy knowing that their gifts are helping others now while they are alive to see them in action.

To reinsure or not to reinsure?

To avoid any pitfalls, charitable organizations and institutions should carefully develop policies and procedures to help determine if and when reinsurance is an option for them. There are many questions to consider, such as: Should you reinsure some or all of your gift annuities? Will you reinsure gift annuities for donors of a particular age, or evaluate each gift annuity at the time it is funded? At what gift amount would you consider reinsuring a portion of a gift annuity? Should this depend on circumstances at the time? At what gift amount would you decide to reinsure the entire gift annuity? How do you disclose the reinsurance option with your donor and when? Which insurance companies/reinsurance providers will you work with when reinsurance is deemed appropriate? How will reinsured gift annuitants receive their payments? Who will be responsible for tax reporting?

You must also keep in mind that even when a gift annuity is reinsured and backed by a commercial insurance carrier, the liability to make lifetime payments to the annuitant remains with the charity. If the insurance provider defaults, the charitable organization is still required to fulfill the payment obligation of the gift annuity agreement. Therefore, a gift annuity reinsurance provider should be chosen carefully.

Will every charitable organization need or want to reinsure all of their gift annuities? Probably not in the case of most who issue charitable gift annuities. As with many things, one size does not fit all, and the decisions regarding reinsurance must be carefully weighed by each nonprofit based on its unique characteristics and goals. But, for certain organizations that want to decrease the risks involved with all or a portion of their gift annuities, reinsurance may be the right fit. G&T

Donor Visits

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we understand the various ins and outs of these gift plans, this is oftentimes the first time they have ever heard of a charitable gift annuity, for example. They have to decide if they really want to complete the planned gift you have discussed with them. We need to keep in mind that the development process is a marathon, not a sprint.

Marble: I do most of my donor visits on the road on Tuesday, Wednesday, and Thursday. When I get back to my office on Friday, I send the donor a handwritten thank you note. If I haven't heard back from them in about a month, I call them to see if they have thought about the proposal.

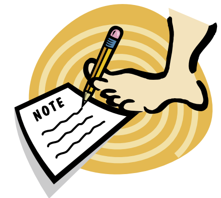
***Give & Take:* What advice would you have for those who may have difficulty visiting with donors?**

Goldman: "No" doesn't necessarily mean "no," it just means "not right now." When someone says they are busy or not available, follow up with a note that says, "It was so lovely to talk with you and I look forward to visiting with you the next time I come to town." Continue to act as if you will get a meeting eventually. Tell them at least once or twice a year how much you look forward to meeting them in person. And always be gracious.

Lapole: Get to your appointment on time! And keep in mind you must be careful to gather all the information necessary before you create a proposal for a donor. If you make a proposal without having all the information you need up front, in my experience, you will rarely get back to make another proposal!

Marble: Just because someone does not want to meet with you, don't get discouraged or take it personally. Now may not be a good time for them because of vacations, travel schedules, etc. Always remember that there are other friends to meet with! G&T

Footnotes



News and ideas about The Sharpe Group's services.

'Tis (almost) the season

As summer turns to fall, the end of the year is quickly approaching. Be ready for the most popular giving season—year-end—by providing your donors with the information they need to maximize the tax and other benefits of their charitable gifts.

Designed to appeal to a broad audience, The Sharpe Group's four year-end giving brochures for 2006 can be effectively used to either complement an existing appeal or to enhance a special effort. Each brochure highlights the various advantages of the most popular forms of giving—gifts of cash, securities, and other appropriate assets. They also point out a variety of strategies donors may want to consider to increase the effectiveness of their gifts both now and in the future.

Each unique design may be personalized on the front and/or back cover with your organization's logo and contact information at no additional fee.

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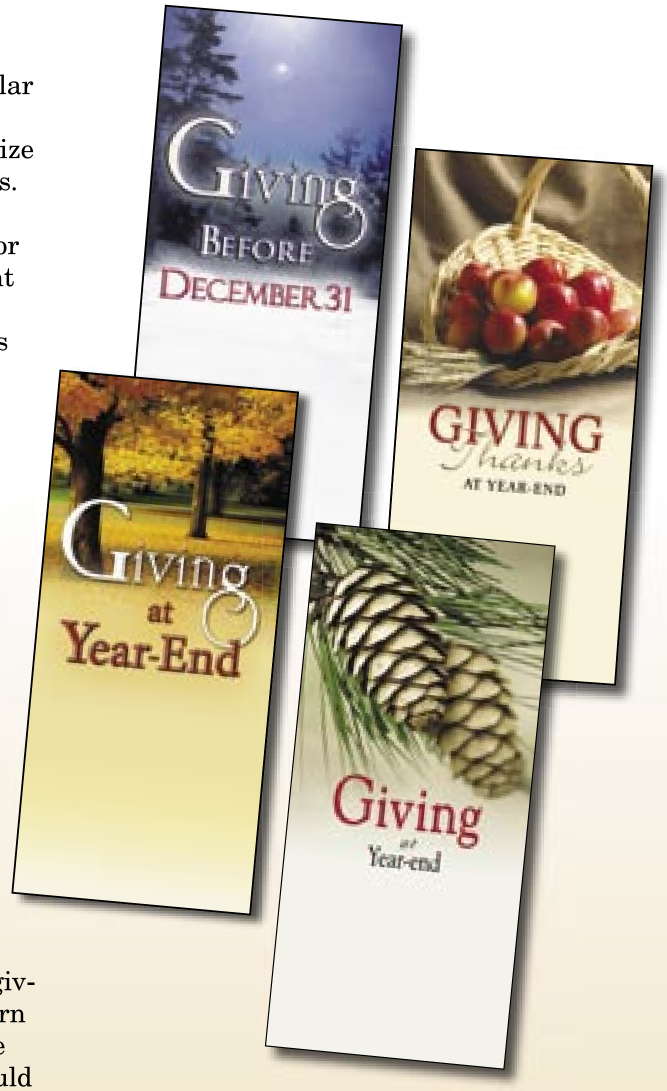


Four more options for newsletter users

When development professionals want to communicate the benefits of specific planned giving options to a special group of donors, many turn to the newsletter format to educate and motivate those individuals. Gift planning newsletters should provide donors with the most accurate and clear information available so that they can make effective long-range plans, including charitable gifts.

As a long-time provider of outstanding gift planning newsletters, The Sharpe Group understands the importance of blending superior newsletter content with fresh graphic design. That's why Sharpe has just added four new design alternatives to our newsletter publication collection.

With updated graphic elements and formats, each newsletter is attractive and inviting. Older readers will appreciate the use of larger text sizes, easy-to-read font styles, and low-glare paper, all of which increase readability for seniors. You may select the accent color for your newsletter, as well as choose from three paper stocks, when you place your order.

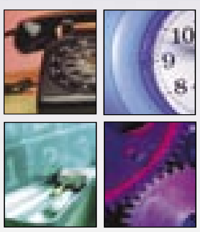
Sharpe representatives are always available to help you determine which newsletter topics may work best for your donors, how many mailings per year may help you achieve maximum results, and how many donors you want to reach with each newsletter mailing. We can also create a personalized newsletter price quote, at no obligation, based on your specific needs.

To see samples of Sharpe newsletters, please visit www.sharpenet.com. If you would like more information about the newsletter series, just call us at 1-800-238-3253 and a Sharpe representative will be happy to answer your questions. G&T

One Great City—
Four Great Seminars

If you are looking for exceptional gift planning training opportunities this fall, New York City is the place to be.

The Sharpe Group will present all of its seminars in New York from August through November.



New York Dates

- August 21-22—An Introduction to Planned Giving
- August 23-24—Managing Planned Giving Relationships
- September 6-7—Major Gift Planning
- November 16-17—Philanthropy in Times of Change

Join us and see why participants are describing Sharpe seminars as "incredible," "worthwhile," "informative," "intriguing," "outstanding," "well-rounded," and "top-notch."

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