Vol. 39 No.6

June 2006

Give & Take™

News and Ideas for Development Executives of Nonprofit Organizations

Understanding the 'Gift' in 'Annuities'

by Robert F. Sharpe, Jr.

According to the American Council on Gift Annuities (ACGA), some 4,000 organizations and institutions now issue charitable gift annuities. Among the most popular gift planning tools, gift annuities offer donors an opportunity to make a gift of relatively modest amounts while retaining a fixed income for life.

The ACGA periodically recommends payment rates, which most charities follow. See examples of currently recommended rates reproduced in the chart on page 4.

Boston will host the Sharpe seminar "Philanthropy in Times of Change" in August. For more information, see page 3.

How rates are determined

The rates recommended by the ACGA are designed to assure that approximately 50% of the amount transferred will ultimately be available for charitable use at the death of the donor, assuming the funds earn a return of 6% and that annual administrative expenses do not exceed 1%. This amount is known as the "residuum." The older a donor is at the time he or she enters into a gift annuity agreement, the higher the payment will be. Over a shorter life expectancy the charity can pay more of the original contribution back to the donor while still achieving at least a 50% residuum. Rates based on the lives of two persons are somewhat lower than the rate for the younger person's life alone because the rates must take into account the possibility that one of the annuitants will outlive his or her life expectancy.

Comparing two annuitants

While the higher rates for a 90-year-old may seem difficult for a charity to pay, consider that this person's life expectancy is only five years. If the funds used to create a $10,000 gift annuity earn 6%, the administration cost is 1%, and the payout is 11.3%, then the expected residuum is $6,518. Note this residuum amount is more than 50% because the rates for older donors are capped at lower amounts than could actually be paid and still result in a 50% residuum. The present value of this amount discounted for inflation at 3.5% for five years is $5,487. If the donor should live five years past his or her normal life expectancy and reach the age of 100, there would still be $2,075 remaining with a present value of $1,471.

Compare this to the case of a 60-year-old gift annuity donor receiving a much lower payment of 5.7% over a 24-year life expectancy. At the end of 24 years, a $10,000 gift annuity should yield a residuum of $6,884, slightly more than in the gift annuity for the 90-year-old. Despite the higher residuum, however, the present value of this amount is $3,014, much less than in the case of the older donor. If the 60-year-old donor lives five years past life expectancy, the residuum will be $5,637, with a present value of $2,078.

There is less of a cushion on earnings, however, in the case of the 60-year-old. If the return on annuity reserves is just 5%, the residuum for the 90-year-old drops just 7% from $6,518 to $6,046 while the residuum for the 60-year-old drops by over 50% from $6,884 to $3,355.

The above analysis illustrates why many charities will place age and/or dollar limits on gift annuities they will accept from younger donors while not being as concerned about high payout rates for gift annuities with older donors.

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Inside:

A Washington Update

Happenings in our nation's Capitol that affect nonprofits

The "Dirty Dozen"

The IRS "2005 Dirty Dozen" list, a countdown of the most serious tax scams last year, includes one item of particular interest to gift planners. Number 9 on the list of tax scams is "Abuse of Charitable Organizations and Deductions." This listing is in response to the increased use of tax-exempt organizations to shield income or assets from taxation.

For example, the IRS cites situations where a taxpayer transfers assets or income to support a tax-exempt organization or donor advised fund, but maintains too much personal control. The problem? The donor receives a tax deduction without transferring a commensurate benefit to charity. The IRS also notes the abuse of conservation easement contributions, such as contributing a historical facade easement to charity when alteration of the facade is already prohibited under local law.

New 8283

In December 2005 the IRS released a revised form 8283 for reporting noncash charitable contributions. The new form has several new provisions, but the change that is likely to affect the largest number of taxpayers deals with "qualified vehicle" donations. Beginning in 2005 or 2006, taxpayers are required to attach with their tax return Form 1098-C or other acknowledgment from the donee organization. If the charity then sells the donated vehicle, the donor's tax deduction may be limited to the gross proceeds from the sale. The IRS was concerned that many taxpayers had been claiming inflated deductions compared to the benefit that the charity received upon the sale of the vehicle. The new rule applies to contributions of boats, airplanes, automobiles, or other motor vehicles.

Another significant revision to Form 8283 deals with charitable contributions of property valued at more than $500,000. In such cases, the taxpayer must attach a qualified appraisal of the property to his or her return. If the donated property is art, a copy of the appraisal must be included for such contributions in excess of $20,000. A deduction for a gift of patents, and other intellectual property, is limited to the fair market value or cost basis of the property, whichever is less.

Legislative Limbo?

As we go to press, a number of legislative and tax matters affecting nonprofits remains in limbo. This spring, Congress was unable to fully reconcile the House and Senate versions of the 2005 tax bills under consideration. Many had hoped that provisions favorable to charity would be included in the final legislation. That was not the case. It is still possible that some of these provisions may be passed later in the year. There has been increased talk about including reforms designed to correct some of the abuses identified in the charitable sector. Thus it appears that any charitable package in the future legislation is likely to include both charitable reform and incentives.

Reforms might include: penalizing participation in tax shelters; increased reporting and auditing of unrelated business income tax; restrictions on contributions to, or payments from, certain donor advised funds.

Charitable incentives that have been discussed include; limited tax-free transfers from IRAs to charity (note, there would be no charitable deduction for such a transfer and the provision would only apply to IRAs, NOT 401(k)s, 403(b)s, or other retirement plans); a limited non-itemizer charitable deduction for gifts in excess of a prescribed floor; clarification on charitable contributions of conservation easements.

At this point, it is anyone's guess as to what might be included in the way of charitable reforms or incentives in any pending legislation. The tax legislation package passed last month did not include the charitable incentive or reform measures and it is not clear at this time whether they will be included in later legislation.

In any event, the provisions which would enhance or restrict certain types of charitable gifts seem to be of a targeted nature designed to eliminate questionable activities while encouraging other types of charitable gifts. G&T

Give & Take:

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SHARPE GROUP

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Sharpe Seminar Series

Featured Seminar: Philanthropy in Times of Change

This seminar was presented for the first time in October 2005 to rave reviews. Of special interest to past Sharpe seminar attendees, the content is focused on how to respond to current conditions that some have described as the “perfect storm.”

The decline in persons in the age range for making bequests and many other planned gifts is now unfolding as predicted. At the same time, uncertainty surrounding the economy and estate tax law continues to present challenges to otherwise motivated donors and their advisors.

What, then, is the appropriate response for those who manage planned and major gift development efforts and are now setting goals and expectations for their staff and volunteer leadership? Robert Sharpe and Jonathan Tidd team up again to provide practical solutions for those who are expected to succeed in spite of what may seem to be debilitating obstacles.

Attendees will leave with renewed confidence in the steps that they can take today to succeed in an era of increased emphasis on helping donors make current and deferred gifts in light of their age, wealth, and other circumstances. 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

Charlotte
July 19-20
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 Fax 901-761-4268 Web site: www.sharpenet.com E-mail: seminars@sharpenet.com

On the Agenda for ‘Philanthropy in Times of Change’

Day One

- Navigating Seas of Change
- Tax Incentives for Charitable Gifts – What’s Left?
- Managing the Gift Planning Matrix
- The Best Planned Gifts in Today’s Environment
- How Will the Baby Boomers Boom?
- Making Gifts Using Pre-Existing Estate and Financial Planning Tools

Day Two

- Meeting the Needs of the Silent Generation
- Gift Planning for the G. I. Generation
- Estate Planning After Estate Taxes
- Communicating Gift Planning Opportunities
- Terminating a Planned Gift
- Working With the Donor’s Advisors – Are They Friends or Foes?

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

What Attendees Are Saying About ‘Philanthropy in Times of Change’

“Excellent presentation of complex material offering practical suggestions and tools!”

“Excellent resource—wholeheartedly recommend.”

“Very complete seminar. I’m understanding more and more! Thank you.”

“The professionalism of Sharpe Group seminars amazes me.”

'Gift' in 'Annuities'

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The commercial alternative

In recent years commercial insurance companies have become more active in marketing annuity contracts that are similar to charitable gift annuities. Like a gift annuity, commercial annuities make fixed, lifetime payments to an annuitant.

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.

The difference is that commercial annuities normally pay significantly higher rates than charitable gift annuities because insurance companies structure their rates with the expectation of a much lower residuum.

For example, let's look at a 78-year-old, the average age at which a donor enters into a charitable gift annuity according to the ACGA. The ACGA recommended rate at that age is 7.6%. The expected residuum in 10 years on a $10,000 gift annuity is $6,729. If a commercial insurance company assumes the same 6% earnings amount and 1% expense factor, it can pay a 78-year-old 11.1% for life (rate quoted recently by a well-known commercial insurer) and still be left with a remainder of some $2,327. The fact that commercial insurers "price" their annuities with an expected residuum of much less than 50% explains in part why commercial annuities often pay rates that are significantly higher than charitable gift annuity rates.

But what of the charitable income tax deduction, you might ask? Doesn't that give the charitable gift annuity an advantage? For a $10,000 gift annuity entered into by a 78-year-old, the charitable income tax deduction is approximately $4,984. If the donor is in the highest federal income tax bracket of 35%, his or her tax savings is $1,744. Because of this savings, the "net cost" of the gift annuity drops to $8,255. If we then consider the gift annuity payment of $760 per year as a percentage of that amount, the effective after-tax rate rises to 9.2%, still less than the commercial rate of 11.1%. For a person in the 25% tax bracket the effective after-tax rate is 8.7%. On top of that, a higher percentage of the payment from the commercial annuity is received free of income tax as a return of principal because the commercial rate is higher, resulting in more principal being returned to the payment recipient.

Marketing "do's" and "don'ts"

The above illustrates why those with no donative intent who respond to ads touting the "higher returns" of gift annuities when compared to other investments will rarely complete a gift annuity after exploring non-charitable alternatives. The truth is that those looking for the greatest returns can arrange for higher payments from commercial annuities and other investments. Marketing materials that compare gift annuity rates to returns on certificates of deposit and money markets, or imply that tax savings give an advantage to charitable gift annuities are simply not comparing apples to apples. A donor can access the funds when needed in the case of CDs, bonds, and money market funds. That is not the case with gift annuities. Keep in mind the fact that a donor is entering into an annuity transaction for less than he or she could receive from a commercial annuity. That is why there is an income tax deduction equal to some portion of amount contributed for a charitable gift annuity.

When marketing charitable gift annuities, it is important to describe them correctly and not compare them to pure investments that feature very different costs and benefits. This is not merely a question of ethics or "best practices." It is the law. In 1995, Congress passed legislation known as the Philanthropy Protection Act, mandating that gift annuities remain exempt from federal securities regulation under certain conditions, including the condition that prospective donors be supplied with information that accurately describes how a gift annuity works. Marketing materials that inaccurately compare gift annuities with other investments may thus give rise to serious questions under federal and state securities laws. The insurance regulators of many states also take an interest in how gift annuities are portrayed. One of their main concerns is also to protect their citizens from misrepresentations.

Gift Annuity Payment Rates

Selected Rates for One Person

Age	Rate	Age	Rate
65	6.0%	80	8.0%
70	6.5	85	9.5
75	7.1	90+	11.3

For over a century, gift annuities have proven to be an excellent way for many to make charitable gifts, offering benefits not available through a bequest by will or certain other gift planning tools. Gift annuities should, however, be marketed as another opportunity for a donor to make a gift that might not otherwise be possible to persons who possess donative intent similar to that required for a charitable bequest. A gift annuity is not a way to "do good" while also achieving superior investment returns. G&T

Leaving It All Behind?

Suppose you have just started a new position—a new opportunity to raise funds for an organization you believe in, work with new colleagues you respect, and establish relationships with a new group of committed constituents.

While this is an exciting moment for any development professional, it is also a critical time for both the organization you are leaving and the organization you are joining. Why? Because being a development professional is complicated. As someone who helps others plan significant gifts that may in some cases be their gifts of a lifetime, you may of necessity learn much about a donor's financial situation, health issues, family relationships, aspirations, and concerns. Much like a physician or an attorney, a development officer can naturally develop personal and oftentimes confidential relationships with donors. Therefore, transitioning out of one position and into another can offer certain challenges and must be managed with care.

Preparing for the move

For the benefit of your successor, as well as the donors you are leaving behind, thoroughly update all of your donor files before you move on to your new position. Make sure your latest contacts have been recorded properly. You may want to create a document summarizing the next appropriate steps for each of your top donors and prospects to leave for the benefit of your successor. This will be especially helpful if one or more donors were actively considering gift proposals and/or making arrangements to complete funding of gifts that have been previously committed.

Before you leave, consider arranging to introduce the new person in your position to these top donors and prospects face-to-face if possible. If that cannot be arranged, you may want to send an appropriate letter to these special donors and prospects explaining your departure and introducing your successor or other contact. Because of the natural friendships you may have developed with many of your donors, some may feel disheartened when they hear the news of your departure. Taking the above steps before you leave—making sure your successor understands the giving history of top donors, and is introduced in as personal a way as possible—can help the donors you leave behind feel more at ease.

Successful gift planning professionals understand that building and maintaining relationships with donors is critical. Keep in mind that these relationships must still be managed with care, perhaps even more carefully, during this time of transition. As you transfer the relationship management responsibilities to someone new, make sure your donors know how you appreciated the opportunity to work with them, and valued their friendships. Serve your donors' needs until the end, and you will have served them, and your organization, well.

Can you leave it all behind?

As you walk out the door on your last day, it is wise to take nothing with you except personal items. Leave donor files and records for your successor. You will not need them as you begin working in your new position with a new base of constituents, and the information they contain belongs to the organization.

Of course you cannot forget what donors may have told you over the years. You may want to think of these confidences in two categories—things donors have told you as a representative of your organization and things they may have told you as a friend. For the former, your duty was to keep confidential notes in donor files that you could share with your successor and others in your organization that would likewise be held in professional confidence.

When your donors divulged things of a more personal nature, it was up to you to decide whether or not to include these items in donor files. Most gift planning professionals agree that you should not put anything in a donor file that you would not want revealed in the future to the donor, his or her family, your successor or other staff, or a court of law. The details of sensitive conversations may or may not be appropriate to record in the donor files. That is a decision each gift planner will make on his or her own. But, the personal information you may have learned about your donors, whether in the donor file or not, must remain confidential. For example, a donor may have shared concerns about a relationship with a spouse or a child, their competence to manage assets, or any number of other personal issues.

Donors sometimes reveal more to those who help them plan their charitable gifts than they would to their friends, family members, and others. In the gift planning process, a donor's ultimate dreams and values are often what are being discussed, along with the details of their personal financial situation and matters that may be inhibiting the completion of gifts they would like to make. The most successful gift planning professionals are those who earn the trust of their donors and help them realize their charitable goals. When you leave an organization, your duty to keep your donors' confidences remains.

Be prepared for challenges

As you begin your new position, if possible reach out to your predecessor and seek the same sort of assistance you have offered your successors. While the person or persons who have handled your donor relations responsibilities in the past may or may not be available to you, you can save much time and effort in taking on your new responsibilities if you take the time to seek guidance in learning about the persons who may be the highest priority for contact in the early days of your new position. Hopefully you will find your predecessor will welcome the

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Leaving It All Behind? ...Continued from page 5

opportunity to help make sure the relationships they managed are well handled in the future.

While it may, under certain circumstances, not be prudent to actively work with the donors you knew in the past from your new place of employment, some of those donors may seek you out. This may be especially true if you have moved to another organization in a local area. How should you approach this situation?

If the donor initiates contact with you at your new organization, you can continue a relationship, but it must be based on your mutual goals of supporting the charitable organization you now represent. If your new position is based in the same locale, you may find that one or more of your previous donors also have a pre-existing relationship with your new employer, so continuing your friendship is only natural and a necessary part of your duties.

The more difficult situation arises when a donor contacts you and wants to make a gift to your new organization, but has no previous relationship with the charity. If you have not proactively contacted such a donor, and the donor takes the initiative to get in touch with you, it is your responsibility as a development officer to work with this donor—listen to his or her charitable goals, discuss your new organization's goals, and determine if there is compatibility between the two.

Be aware that your job is to help people give to the charities of their choice. Make sure the

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From the Field

Dan Murrell

To find out more about the real-life issues involved with changing jobs in the development field, *Give & Take* talked with Dan Murrell, director of development at the Community Foundation of Greater Memphis, and previously in fundraising at Trezevant Manor, a Memphis-based nonprofit retirement community.

***G&T:* How did you prepare the organization, your successor, and your donors for your departure?**

Murrell: I was able to give Trezevant Manor a month's notice before I left. So I had a full four weeks to work side-by-side with my successor, who was promoted from within and was already involved with many of our donors. We had time to review what was going on, try to update files, and get things more organized. I left notes on many things and we have stayed in contact. For a while after I left, we talked about twice a week. We talk less frequently now.

As far as working with Trezevant donors before I left, I just wanted to make sure everyone felt taken care of. I tried to personally tell as many people as I could about my leaving. I located important documents pertaining to donors' gifts and shared them with my successor so she could handle any questions or concerns the donors might have. So I felt it was a fairly smooth transition.

***G&T:* Were there any challenges for you as you considered changing jobs?**

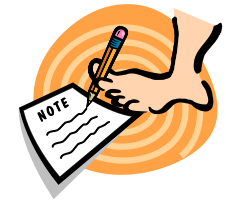
Murrell: Yes. We had built up the planned giving program like it had never been before. And we had just finished the first capital campaign at Trezevant Manor, so we had done things in development that had never been done there. So there was a pride of creation in the program. I had relationships with a lot of people who were not only donors, but called this organization their home. They benefited from our mission on a daily basis. So my first consideration when I thought about leaving was taking care of Trezevant's donors. I worried about how my departure might impact them.

One of the other challenges that I am still working on is making the shift mentally from one organization to the next. I will still sometimes refer to Trezevant as "we" rather than "they." Part of that comes with time in a new organization. That's not to say I am diminishing the friendships I had at Trezevant, because I still get to see some of those donors from time to time.

***G&T:* Have you experienced crossover donors since you moved to your new position?**

Murrell: Yes, there are several donors that I worked with before at Trezevant that I am still working with now as donors of the Community Foundation because they are on the boards of both organizations. I have enjoyed maintaining those friendships and growing them. But I would never ask a donor I had known in my prior role for a gift to my new organization if there was not already pre-existing donative intent. As a fundraiser you are supposed to match a donor's interests with your organization's interests. I would never try to force a change in a donor's current giving commitments. G&T

Footnotes



News and ideas about The Sharpe Group's services.

New designs for newsletter users

Sharpe newsletters have long been a convenient and cost-effective tool for many of the country's most successful gift planning programs. When you need to cultivate those individuals who may be most important to your organization's future, Sharpe newsletters educate and motivate your constituents about the most effective ways to make their gifts.

The Sharpe Group has just added a new group of newsletters to our collection of publications. These four new design alternatives each feature attractive graphic elements and unique, easy-to-follow formats.

As you have come to expect from Sharpe publications, the newsletter copy provides donors with inviting, up-to-date information on ways to make current and deferred gifts most effectively. The easy-to-read text helps donors understand many opportunities for giving that help donors meet personal planning goals that might otherwise restrict their ability to give. Sharpe writers have created the newsletter copy with particular age and wealth groups in mind, so you can reach just the right donors with messages tailored for their situations.

The Sharpe Group newsletter series is a flexible, powerful way to encourage planned gifts. A Sharpe representative would be happy to discuss how the newsletters could fit into your overall communication efforts. Just call 1-800-238-3253 for more information. Or to request sample copies of the new newsletters, please visit www.sharpenet.com.

Stock gifts on rise?

With the stock markets recently reaching 5-year highs and year-end fast approaching, individuals may be thinking about ways they can fulfill their giving plans in the most tax-wise manner. Consider providing your donors with the brochure "Questions & Answers About Giving Securities," which could prove helpful to them and, in turn, benefit your organization.

Many donors may be unfamiliar with special strategies that can help with both their financial and charitable gift planning. In its easy-to-read, question-and-answer format, this brochure discusses ways to make charitable gifts using securities. Your donors will learn the answers to such questions as "How do I go about making a gift of securities?" or "What if I want to make a gift, but am reluctant to give a stock that is increasing in value?"

If you would like more information about "Questions & Answers About Giving Securities," call 1-800-238-3253 to speak with a Sharpe representative. G&T

Leaving It All Behind?

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donor is choosing to give to your new charity because of a belief in its mission, not simply because you work there.

Responsibility never ends

When a development officer changes jobs, there is one thing that doesn't change—the responsibility to serve the donors' needs both now and in the future. While circumstances beyond your control may prevent you from taking all the actions described here, knowing that you have fully and ethically supported the gift planning program and donors of your former institution will help ease the transition to your new position. G&T

"The best seminar I have ever attended!"

New Dates Added By Popular Demand!

Philanthropy in Times of Change

The newest course in The Sharpe Seminar Series

Consider this:

- The number of people in the age range for making bequests and other planned gifts is declining
- The number of nonprofits seeking planned gifts has grown dramatically in recent years
- The much-touted, multi-trillion dollar wealth transfer may not materialize as expected
- The estate tax is rapidly being phased out

What do these concerns mean for those who manage planned and major gift development efforts? How could this affect setting goals and expectations for staff and volunteer leadership?

To help answer these questions, The Sharpe Group presents "Philanthropy in Times of Change," a new seminar offering practical solutions for those who are expected to succeed in spite of what seem to be debilitating obstacles.

What Participants Are Saying

"The best seminar I have ever attended!"–Ed Roberts, The Salvation Army, Kansas City

"Thoroughly enjoyed the seminar. Both the lecturers and the notebook were well-organized, well-presented, and educational."–Marcelle Highstreet, Tulane University, New Orleans, LA

"An excellent seminar. It gave me many 'takeaways' to consider."–Ellen Arnold, The Brethren Home Community, New Oxford, PA

"Thanks for your wonderful program. Wish I could incorporate all of it into our development program." –Susan Bradlau, Lafayette College, Easton, PA

"I hesitated circling '10' for every session, but I couldn't help it. Each session was a '10' for me—one of the best seminars I have ever attended."–Sr. Margaret Mahoney, Catholic Diocese of Wilmington, Wilmington, DE

"I appreciate the value of real ideas I can actually take back and implement in a campaign. Thank you." –Michael Marrone, Canisius College, Buffalo, NY

"I always learn a lot from your seminars that help me to be more effective. Thanks!"–Maya Abels, Aurora Health Care, Milwaukee, WI

"Incredible conference. Two days of a wealth of knowledge."–Virginia Mullins, American Red Cross, Washington, DC

Upcoming Dates

Charlotte, NC	July 19-20
Boston, MA	August 3-4
New York, NY	November 16-17

Registration is limited. Sign up today.
www.sharpenet.com/seminars
1-800-238-3253 ext. 5360