

# Give & Take™

News and Ideas for Development Executives of Nonprofit Organizations

## Understanding IRAs and the PPA

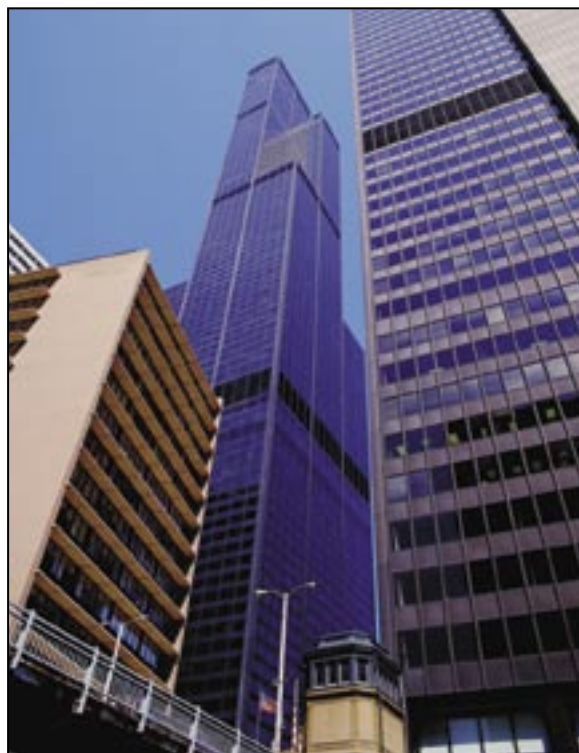
Individual Retirement Accounts (IRAs) have evolved considerably since their creation in the 1970s. Over the years, eligibility for individual retirement plans has expanded and changed to include variations on both the traditional IRA and the newer Roth IRA so that the IRA has now become an important part of the retirement portfolios of tens of millions of people and accounts for the ownership of trillions of dollars. It is critical for gift planners to have an adequate understanding of IRAs in order to benefit from the role they can play in fund development efforts. This is especially true in light of charitable incentives included in the recently enacted Pension Protection Act of 2006. The charitable IRA rollover provision could prove to be a significant source of funding over the next 16 months.

### *A short history of IRAs*

The first provisions for IRAs were included in 1974 under the Employee Retirement Income Security Act of 1974 (ERISA) as a plan limited to workers who did not have access to employment-based plans. In the early 1980s, the IRA was extended to all workers under provisions of the Economic Recovery Tax Act of 1981 (ERTA). IRA contributions increased over 500% during this period.

However, after taking strides to make the IRA more accessible, Congress then restricted the tax deductibility of certain IRA contributions and created non-deductible IRAs as part of the Tax Reform Act of 1986. (Note that even though the contributions were not deductible, the funds could grow on a tax-deferred basis.)

The Taxpayer Relief Act of 1997 expanded the non-deductible IRA through the creation of the Roth IRA, under which after-tax dollars could grow on a tax-deferred basis and eventually be withdrawn tax free. Although the Roth IRA is derived from the traditional IRA, the tax treatment of withdrawals dictates that traditional IRA



*The windy city of Chicago will host the Sharpe seminar "An Introduction to Planned Giving" in October. See page 3 or [www.sharpenet.com/seminars](http://www.sharpenet.com/seminars) for details.*

funds will continue to be the preferred choice for inter vivos, or testamentary, charitable gifts.

The 2001 Tax Act increased the contribution limits for IRAs. The Pension Protection Act of 2006 includes provisions to simplify and encourage the use of IRA assets for charitable purposes for persons over age 70½.

### *Value of retirement plans*

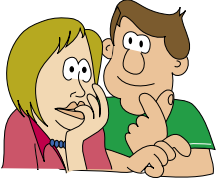
The value of assets held in IRAs grew steadily from 1981 to 1999 before experiencing declines during the 2000-2002 time period as a result of investment market declines. Since then, account values have recovered and grown to record levels.

IRA asset values reached over \$2.5 trillion before declining to around \$2.4 trillion in 2001. IRA assets grew

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### Inside:

- Will Boomers receive booming inheritances? p.2
- Thanking donors—some do's and don'ts p.4



Whether their inheritances are big or small, Boomers will impact planned giving.

## Give & Take:

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# Inheritance: Boom(er) or Bust?

Fundraisers are beginning to closely examine a variety of factors that may determine the direction that individual and estate giving will take over the next 5 to 10 years. One question that has received much press is how inheritances received by Baby Boomers will impact their ability to make charitable gifts now and in the future. In other words, will the wealth transfer to Boomers allow them to dramatically increase their charitable giving?

Over 70 million Boomers were born between 1946 and 1964. This year, the oldest Boomers began turning 60 and the youngest are in their early forties. Thus far, they have had a dramatic impact on life in America as children, teens, young adults, and now mature adults in their prime earning and saving years. With each passing year, what this group does or does not do will have a growing influence on philanthropy in America.

With the passing of the G.I. and Silent Generations, many Boomers will be inheriting substantial sums over the next two decades. Will their newfound wealth provide an indirect boost in charitable giving? Nobody knows for sure, but it may be helpful to consider the potential impact of Boomer inheritances on philanthropy in greater detail.

### *Numerators and denominators*

Think of future decedents as the numerator and potential inheritors as the denominator. The greater the number of denominators in relation to the number of numerators, the smaller each inheritance will be. For example, if a \$1 million estate is divided equally among four children, they will each receive \$250,000. If the estate were \$100,000, they would each receive \$25,000. Obviously, if there were only two children involved in the examples above, their inheritance would be twice as large. As the denominator decreases, the inheritance will increase.

During the Baby Boom, birth rates increased and the average number of children per family increased. This in turn will tend to cause the Baby Boomer inheritances to be diluted when compared to the smaller

generation that preceded them. There were approximately 3.5 children per Baby Boom family. Because this figure is about one more child than in the generation before or after the Baby Boom, it will likely reduce the percent received by each Baby Boomer inheritor when viewed collectively.

### *Wealth matters, too*

The amount of wealth in estates and its distribution must also be considered. Generally the greater household wealth, the larger the size of inheritances. The most recent figures indicate the household wealth of Americans reached an all-time high in 2006 of \$53.8 trillion. However, when adjusted for inflation, this figure is approximately the same as it was in 1999. In addition to assets, debt must be considered, and household debt has grown in recent years. A growing number of seniors have been filing for bankruptcy as a result.

The distribution of wealth must also be considered. Only a relatively small number of estates are large. Each year, approximately 2.5 million people die, yet less than 35,000 are expected to file Federal Estate Tax returns in 2007 because their estates are larger than \$2 million. This number has continued to shrink in recent years as the estate tax exemption equivalent has gradually increased.

When all of the above factors are taken into account, a number of reports have estimated that the average bequest a Boomer can expect to receive will be in the range of \$30,000 to \$50,000. A few will receive much more, but many will receive little or nothing.

### *Impact of longer lives*

Over the last century, life expectancy has increased by over 50%. In 1900 the average life expectancy was 47 years old. Today it is over 75. A generation or two ago, many that retired died shortly thereafter. Today, more people are retiring earlier and living longer. In some cases, retirement may last as long as a person's working years. A growing number of people can be expected to put a serious dent in their nest egg during the decades of retirement. Perhaps you have seen the bumper sticker that reads, "We are spending our children's inheritance." With rising nursing home, drug, and health-care costs, a few extra years of life expectancy can largely deplete a small or moderate size estate.

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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

### 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](http://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'

*"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

### An Introduction to Planned Giving

Chicago  
October 30-31  
Washington, D.C.  
January 22-23, 2007

### Managing Planned Giving Relationships

Washington, D.C.  
January 24-25, 2007

### Major Gift Planning

Washington, D.C.  
November 6-7

### Philanthropy in Times of Change

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](http://www.sharpenet.com) E-mail: [seminars@sharpenet.com](mailto:seminars@sharpenet.com)

# Some Do's and Don'ts of Donor Acknowledgment

In today's world, there are more nonprofits than ever asking donors to give from income and assets that may be increasingly uncertain. Therefore, now may be a good time to re-examine the ways in which we thank donors. A well-organized gift acknowledgment system can help form the foundation for relationships that lead to more frequent and larger gifts.

The end of the year is the busiest season for charitable gifts, and, therefore, thanking donors becomes even more critical at that time. With that in mind, let's look at some of the do's and don'ts of thanking donors.

**Do acknowledge all gifts promptly.** Once a gift has been received, timely acknowledgment is essential. While you may specify that gifts of larger amounts ideally call for a personal visit in addition to a handwritten letter and/or phone call, gifts of any size merit an appropriate and timely thank-you.

**Don't assume a donor's small gift indicates a small interest in your mission.** When a donor makes a gift of a smaller amount, that does not necessarily mean he or she has little interest in your cause. Treat all donors—even those of modest amounts—with the respect they deserve and thank them accordingly.

Keep in mind that older, long-term donors who may be living on a fixed income may be in the process of “downgrading” their giving. For example, a donor who has been a loyal supporter for 25 years may feel she is only able to give \$5 currently. Thanking a long-term donor like this may yield tremendous benefits when that person decides how to distribute her \$150,000 estate.

**Do respect requests for privacy when thanking your donors.** Many organizations offer donors of various amounts membership in special giving societies. Creating clubs or societies for donors—especially those who have made planned gifts such as bequests, life income plans, or other gifts from long-range estate and financial plans—can be an effective way to maintain ongoing relationships with donors.


While you may offer to include recognition society donors' names in your communications pieces, be sensitive to the fact that some persons will wish to remain anonymous for religious and

other reasons. Be sure your gift acknowledgment system is designed to preserve the anonymity of these donors where appropriate. But remember, however, that just because some do not want their names published does not mean they do not want and need to be thanked. Find less public ways to thank these donors, and they will appreciate your regard for their wishes.

**Don't spend more time “making the ask” than “making the thank.”** It is important to devote as much or more energy in retaining donors as acquiring new ones, so you may find it beneficial to spend as much time and other resources in thanking donors as you do in asking them for their gifts in the first place. While you may be tempted to curb gift acknowledgment efforts in order to save funds, be wary of cutting back on thanking donors because that decision may backfire. We have observed that organizations that make attempts to thank as many donors as possible tend to raise more cumulative funds, both current and deferred, at lower overall costs than those that do not.

**Do communicate thanks by sharing news with your donors.** Whether they have made a large or small gift to your organization, donors who make contributions have indicated an interest in your cause. They have made a sacrifice and given funds that they could have used for themselves in many ways. Consider sending your donors information about how your organization or institution is making a difference. Invite them to special events where possible. Mailing newsletters and other updates, for example, can also be a good way to say thank you on an ongoing basis while informing them about how their gifts are being used. Donors enjoy seeing or reading about projects they have helped make possible and hearing how those who benefited appreciate their help.

## *Bottom line*

Maintaining a close relationship with donors by expressing your gratitude sincerely and appropriately can go a long way toward growing the annual or occasional donor into a major and/or planned giver. Help people feel good about their association with you, thank them in meaningful ways, and you will nurture a constituency of long-term, committed donors who are happily devoted to your cause. 

# IRAs and the PPA...Continued from page 1

to some \$3.7 trillion at year-end 2005. An estimated 46.8 million households have some type of IRA, of which 37.6 million included traditional IRAs. Approximately 10% of this number is required to take distributions. In 2001, some 3.5 million individuals reported IRA withdrawals on their income tax returns.

Of the 3,448,457 individuals in 2001 reporting IRA withdrawals, 836,593 had an adjusted gross income (AGI) of under \$30,000. Another 895,335 persons had an AGI in the \$30,000 to \$49,999 range, and 1,114,172 fell into the \$50,000 to \$99,999 range. In the highest income group, 496,167 returns revealed an AGI in the \$100,000 to \$200,000 range. Some 106,189 returns fell in the over \$200,000 category.

### Implications for gift planners

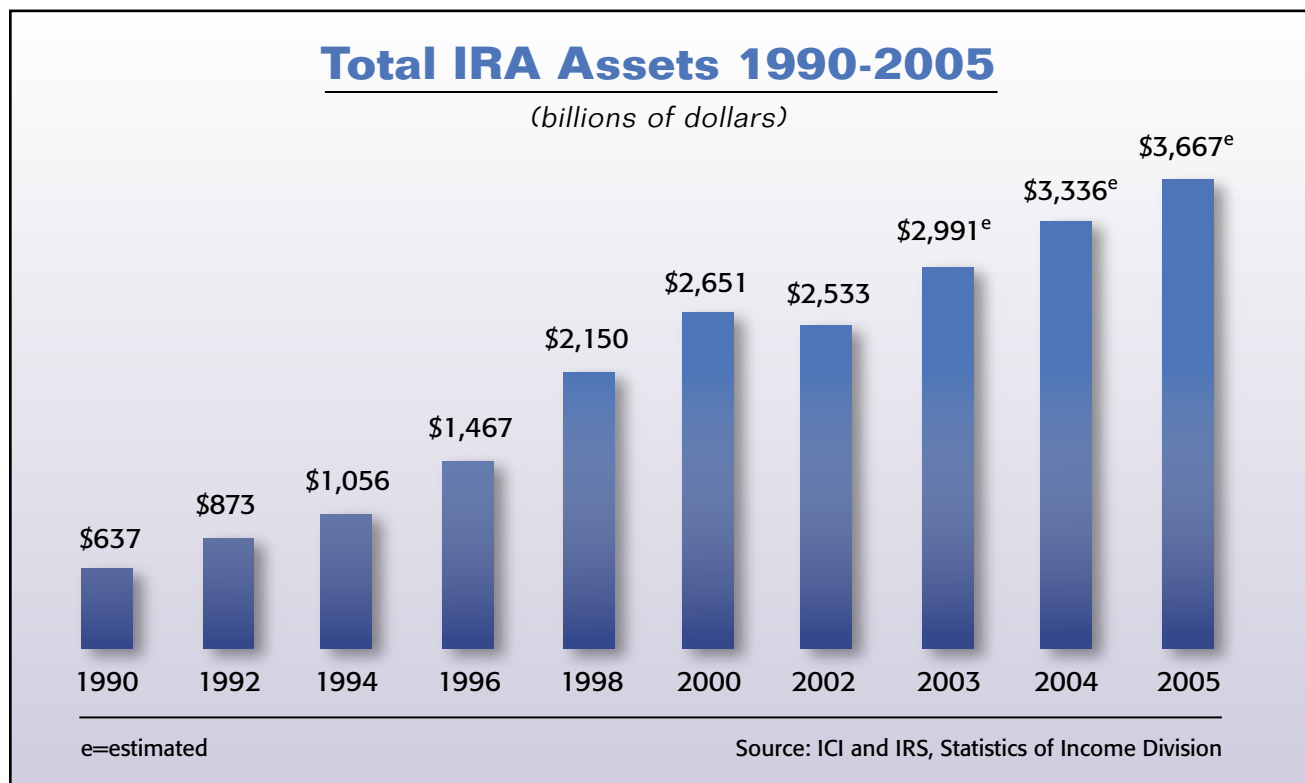
With the passage of legislation to encourage charitable gifts from IRAs, gift planners need to be aware of potential IRA gift opportunities. To do so, it is critical to understand the makeup of the IRA market. For upper, middle, and upper-lower income IRA holders who are at least 70½ and support charitable causes, IRA assets may represent a convenient, tax-efficient source for making charitable gifts while conserving non-IRA assets.

The charitable IRA rollover provisions of the Pension Protection Act of 2006 provide a significant

but limited opportunity to tap this important asset source for charitable purposes. The law provides for an exclusion from income for certain direct distributions to charitable organizations. Donors must be at least 70½ and have a traditional or Roth IRA. The funds must go directly from the IRA to a qualified charity. The provision does not apply for gifts to donor advised funds, support organizations, gift annuities, charitable remainder trusts, or other planned gifts. A maximum of \$100,000 may be transferred in this fashion in both 2006 and 2007, for a potential gift of as much as \$200,000 per individual. In some cases a couple may be able to transfer as much as \$400,000 to charity if they both have IRAs.

Many believe that the nation's nonprofits will greatly benefit as a result of simplifying rules and encouraging charitably motivated persons to consider these assets as an additional source for funding outright gifts in retirement years.

If you would like more information about how the federal tax legislation may affect gifts of retirement plan assets, visit [www.sharpenet.com/irarollover](http://www.sharpenet.com/irarollover). See page 3 for upcoming training opportunities that feature the use of retirement plan assets in charitable planning. *G&T*



## Boom(er) or Bust? ...Continued from page 2

### What this all may mean

Despite the wealth transfer from one generation to the next, the fact is that in the early years it will be divided among some 70 million Boomers. This will tend to dilute the philanthropic impact as they receive these funds at the time in life when many are planning their retirement and may still have children at home or in school. While the economy has rebounded, household wealth remains flat when adjusted for inflation and the burden of debt service is likely to increase as interest rates rise.

The key for the next few years will be to continue to work with the dwindling number of the G.I. and Silent Generations, while developing planned and major gift strategies and techniques that are appropriate for the 70+ million Baby Boomers who are in their peak earning years and will be receiving inheritances while retiring in greater numbers each year. It is unlikely that most Boomers will “disinherit” themselves by immediately giving inherited funds away.

A small number of Boomers will receive large inheritances that will provide additional assets and income which they can use, in part, for charitable purposes. This group may find that they have increased discretionary income and assets, some of which may be directed to charity. Another group will receive moderate inheritances that will have little impact on their lifestyles or charitable giving patterns. In some cases, members of this group may be able to use these funds as a means to fund a current or deferred major gift. Consider the case of a person receiving a \$50,000 inheritance from a great aunt. This person could buy a new car, invest for retirement

or fund a deferred gift annuity for that purpose, or use a portion of the funds to make a gift that memorializes the deceased aunt.

The Baby Boomers are likely to have a noteworthy impact on philanthropy because of their sheer number. They are currently in their peak earning years, but many find that demands upon their time and resources are overwhelming. Charities should develop and implement programs to acquire and maintain Boomers as regular contributors, identify those that have the capacity and interest to make special gifts, and begin the nurturing process that will eventually lead to the next generation of estate donors.

Revisiting the classic fund-raising pyramid may be a way to identify the handful of wealthy top prospects and the next group for special and major gifts. From the masses that are left, consider plans that are not necessarily based upon the lives of persons that are currently 42 to 61 years old. Instead, consider how term-of-year trusts may be used for special needs such as funding children’s college education, building a bridge to retirement, or funding a gift plan to provide for a parent or grandparent based on that person’s life, in which the relative gets the income and the donor receives an income tax deduction.

It may be 20 years before the full impact of current inheritances is reflected in estate gifts from the Boomers. Now is the time, however, to begin discovering the Boomers who can first make significant gifts during their lifetime and then help them plan for a lasting legacy in years to come. [G&T](#)

## Clarification

After receiving a sharp observation from one of our *Give & Take* readers, we wanted to clarify a statement that appeared in the July 2006 *Give & Take* article entitled “After the Bequest—Estate Administration Tips.” The portion of the article in question read as follows:

*“When you find out the gift has been left from a will or trust, you should contact the attorney for the donor’s estate or, if there is no attorney, the executor for the estate. If you haven’t already received one, request a full copy of the will or trust document. If you are unable to obtain these documents from either the attorney or the executor, you may request them from the local probate court where the donor resided.”*

Our reader quite correctly pointed out that the article implies that you can as a matter of course request a copy of a trust document that has been filed with a local probate court. This could be a little confusing. While living trusts and other trusts aren’t necessarily open to public inspection, if you are named as the beneficiary of a trust you have rights that vary under state law. The probate court would have jurisdiction if a trustee refused to give a beneficiary such as a charity a copy of the trust and the charity could petition the court to force the trustee to provide a copy. That is what is meant by the language in the article. [G&T](#)

## Footnotes

### *Communicating the benefits of IRA rollovers*

As noted on page 1, by enacting the Pension Protection Act of 2006 (PPA), Congress has provided opportunities this year and next for donors who hold significant assets in the form of traditional and Roth IRAs to make tax-favored gifts using those funds.

The Sharpe Group offers a number of ways to communicate the benefits of giving from retirement plan assets both now and as part of one's estate plan. Consider using one or more of these communication tools to inform various members of your constituency.

- **“The Charitable IRA”** is a new, six-panel brochure designed primarily for use with those age 70½ and older who may hold more assets in their IRAs than they believe will be needed to meet their current and future needs. Using helpful examples designed to appeal to those in various circumstances, this brochure informs donors that they can make gifts of all or a part of their mandatory withdrawal amounts up to a maximum of \$100,000 per year. “The Charitable IRA” is also suitable for use with a somewhat younger group as it suggests that anyone over age 59½ who is thinking of making a larger gift might consider his/her retirement plan as an additional “pocket” from which to give.

- **“Questions & Answers About Retirement Plans,”** part of our popular Q&A series, has been updated to include the incentives in the PPA legislation. It is designed for use with a broader range of older donors. In addition to emphasizing the benefits of the PPA for making immediate gifts, this brochure describes the reasons it may be more appropriate to use retirement plan assets to fund charitable bequests and provide for heirs from other assets that are taxed more favorably.

### GIVING THROUGH RETIREMENT PLANS


### THE CHARITABLE IRA

### Q & A

### Questions & Answers About Retirement Plans

- **“Giving Through Retirement Plans”** has also been updated to include the provisions of the PPA. This 20-page booklet is designed for use where more in-depth information about ways to give through retirement plans is appropriate. The booklet begins with an examination of current giving opportunities (including the PPA) and then devotes significant attention to ways retirement plans can also be used to make deferred gifts. “Giving Through Retirement Plans” also includes a technical advisory section that offers more details about taxes, gift structuring, and other matters of special concern to donors' advisors.

- If you are not sure of the age or other demographic characteristics of your constituency and are not able to reliably target information about the PPA to the appropriate portion of your constituency, consider using one of Sharpe's year-end giving brochures (see the back cover of *Give & Take*). All year-end giving brochures have been revised to include references to PPA legislation and also include other year-end giving tips. Sending one of these brochures can be an effective way to ensure you don't miss any prospective retirement plan donors, while also effectively communicating your basic year-end message to those for whom IRA rollover provisions are not applicable and/or appropriate.

To view or download these publications, visit [www.sharpenet.com/irarollover](http://www.sharpenet.com/irarollover). 



News and ideas about The Sharpe Group's services.

# 2006 Year-End Brochures



Give your donors the information they need to maximize their charitable giving before the end of the year. The Sharpe Group's year-end giving brochures can help your organization reach its full potential for gifts during the important year-end giving season.

Designed to appeal to a broad audience, Sharpe's year-end brochures provide your donors with the guidance they need to make informed, thoughtful gifts before the close of 2006. Each brochure includes a reference to IRA rollover provisions to help reach those persons to whom this opportunity applies.

Stay in touch with your donors. Let Sharpe's year-end brochures help you remain in your donors' thoughts as they review their giving plans this fall. To view or download these brochures, see [www.sharpenet.com/yearend](http://www.sharpenet.com/yearend).



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