

# GIVE & TAKE<sup>®</sup>

News and Ideas for Development Executives of Nonprofit Organizations

October 2007

Vol. 40 No. 10

## \$300 Billion for the Asking? by Barlow T. Mann

**T**he latest *Giving USA* report estimated that total giving in the United States reached an all-time record of \$295 billion in 2006. Yet, when adjusted for inflation, giving actually declined in 2006. (See [www.givingusa.org](http://www.givingusa.org))

Many veteran and novice fundraisers alike are anxious about what this may mean for 2007. Charitable giving in the U.S. should exceed \$300 billion this year, but will the philanthropic impact again be flat or down after considering the loss in spending power due to inflation?

This year has been one of uncertainty thanks to volatile energy and stock prices, a bubble in the real estate market, vanishing and injured hedge funds, increasing pressure on investment returns, a sub-prime financial crisis, and decreasing merger and acquisition activity, among other causes. It can be enough to make your head spin—whether you are a development officer or donor—especially as we approach the critical fourth quarter year-end giving period. Most charitable organizations receive the majority of their gifts in the second half of the year, and the lion's share of those gifts are received during the year's final quarter.

### Promising returns

However, the outlook is not all gloomy. For example, Americans have seen tremendous increases in personal wealth in recent years. According to the Federal Reserve, the net worth of U.S. households exceeds \$56 trillion. That's an increase of over 40% in net worth since 2002!

In other good news for individual Americans, unemployment figures are at low levels, and household income has been increasing as well, particularly at the upper levels. The number of millionaire households in the U.S. now exceeds nine million, and over one million of those own assets in excess of \$5 million.

On the nonprofit front, there is further evidence of optimism. Nonprofit endowments have been enjoying superior returns, and many charitable organizations have been conducting successful capital campaigns.

As you contemplate the various complex factors that are contributing to

the fund-raising environment this fall, it may be useful to consider new data from a series of recent studies. These reports include the *Bank of America Study of High Net-Worth*

*Philanthropy, U.S. Trust Survey of Affluent Americans XXVI, 2007 World Wealth Report, and Northern Trusts Wealth in America 2007*. While the methodologies and focus vary from study to study, there are a number of findings relevant to philanthropy that may affect your fund-raising strategy this fall.

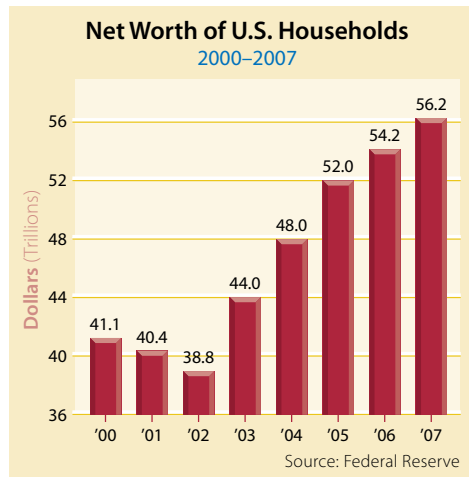
### A closer look

*World Wealth Report 2007*, published by Cap Gemini and Merrill Lynch, observed "irrespective of wealth band, philanthropic giving will continue to be driven not by corporations, governments, or foundations, but by the generosity and intent of individuals." The report also noted the following:

- North America has the greatest number of high net worth and ultra high net worth individuals.
- Securities are the #1 investment asset allocation.
- Equities and fixed income investments account for the majority (52%) of the financial assets of high net worth individuals.
- Cash accounts for 13% of high net worth assets, while real estate and alternative investments total approximately one-third of the asset allocation.

*Bank of America Study of High Net-Worth Philanthropy* examined the characteristics of approximately 3.1 million households with incomes over \$200,000 and investable assets of at least \$1 million. According to the study, this relatively small group accounts for

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# Designated Endowment: How Much Should We Restrict the Future?

by Robert F. Sharpe, Jr.

In recent years, America's nonprofit community has concluded an unprecedented number of campaigns for outright gifts that have reached and surpassed ambitious goals for capital support.

At the same time, many board members and other leaders in the philanthropic world have become aware of the importance of endowment. Through endowment that generates funds year after year for ongoing operations, an organization can build a sound economic foundation.

Blending these ideas, some organizations are considering or implementing campaigns for the purpose of building endowment. What factors should be weighed before embarking on such a plan?

## Two types of campaigns

There are at least two types of endowment campaigns. Most common are traditional campaigns that encourage outright gifts for endowment to be made during a specified period of time.

For example, a donor might pledge \$1 million restricted for endowment to be paid in cash or other property over a specified pledge period. The donor might stipulate that the income from the funds may be used for the general purposes of the institution or for a specific purpose such as scholarships, research, or other uses.

Another type of endowment campaign now being conducted by

some is different and deserves closer scrutiny. These campaigns focus to a large extent on encouraging bequests and deferred gifts that are restricted to endowment.

As an example, a 60-year-old couple might be encouraged to create a \$1 million charitable remainder trust for their lifetimes, with the remainder restricted to the endowment of the organization. The organization then announces that a \$1 million "endowment" has been created, the actual enjoyment of which will be postponed for up to 25 years, the life expectancy of the donors.

When the donors' income interest finally ends, perhaps \$50,000 per year will actually be available as earnings from the endowment.

This second type of arrangement may certainly help increase deferred gift expectancy levels. But how does such a campaign harmonize with the overall strategic plan and objectives of the organization?

## Restricting the normally unrestricted?

In our experience, the vast majority of bequests, charitable remainder trusts, gift annuities, and other planned gifts, even larger ones, received each year are unrestricted. In today's environment, many organizations now depend to a greater or lesser extent on unrestricted maturities from deferred gifts to balance annual operational budgets

and fund capital intensive projects that may not have been included in regular operating budgets.

This trend mirrors the experience of many of America's nonprofits during the difficult period between 1931 and 1949. *The New York Times* reported on April 3, 1939, that it was a large increase in bequest income during the Depression in the face of falling outright gifts that led to an overall decline of only two percent in the funding of a group of leading educational institutions during that period.

Taking a lesson from the past, when times are good, the leadership of many institutions may wish to voluntarily restrict all or a portion of matured planned gifts to a "quasi-endowment" fund which can be tapped when needed in future years.

## Encouraging limitations?

In the face of these factors, then, campaigns that will result in restricting deferred gifts to endowments restricted for narrow purposes should be undertaken only after careful consideration. If an organization enjoys a predictable flow of current gift revenue that is unlikely to be affected by economic downturns, such a campaign may be more appropriate.

For those less confident of future unrestricted funding, it may be less desirable to actively

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## GIVE & TAKE®

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## Sharpe Seminar Series

### Featured Seminar: 'An Introduction to Planned Giving'

This information-packed seminar offers an in-depth introduction to the process of charitable gift planning in today's complex environment. It is designed for those who are assuming responsibility for planned giving for the first time, as well as those who have multiple duties and are looking for guidance on 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. 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.



### What Attendees Are Saying . . .

*"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

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

*"This is the most worthwhile professional conference I can remember attending."*—Mr. Chandler Battaile, Association for the Preservation of Virginia Antiquities, Richmond, VA

## 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 Sharpe 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.

## UPCOMING SEMINAR TRAINING DATES

### An Introduction to Planned Giving

Tampa  
October 29-30

San Francisco  
November 28-29

New York  
January 7-9

### Integrating Major and Planned Gifts

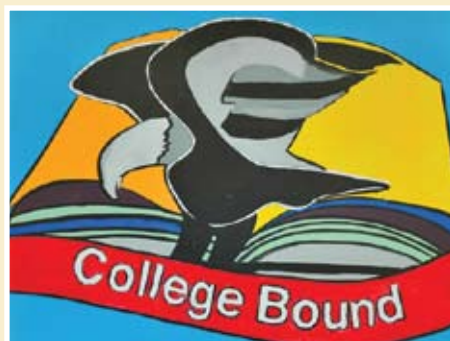
Washington, D.C.  
December 3-4

Multiple registration discounts are available. For more information or to register, please contact The Sharpe Group. Phone 1-800-238-3253, ext. 5313 • Fax 901-761-4268 • Web site: [www.sharpenet.com](http://www.sharpenet.com) • E-mail: [seminars@sharpenet.com](mailto:seminars@sharpenet.com)

# The Sharpe Group Gives Back to Local Community

The Sharpe Group staff enjoys serving America's nonprofit community on a daily basis—helping our clients in the philanthropic community who are making the world a better place is our privilege and passion.

Recently, The Sharpe Group embarked on two service projects that allowed us to step away from our desks and work to improve our local community in a more hands-on way.



Murals painted by Sharpe Staff

## Artful giving

For the first project, we partnered with Treadwell Elementary School to design and paint murals in two of the school's most prominent corridors. Treadwell, an inner-city Memphis public school once on the state's probationary list of underperforming schools, has improved its ranking and is now considered a "Striving School," working diligently to increase its educational quality for students. After several meetings with the school's principal and vice principal, the decision was made to focus the murals' theme around the school district's new motto—*Every Child, Every Day, College Bound*.

Sharpe Senior Graphic Designer Marianne McHann spearheaded the project, creating multi-image murals that incorporated the school's new motto and reflected the cultural diversity of the students. After preparing the walls by sketching out the mural outlines, McHann guided Sharpe employees and their family members through the painting process.

The Sharpe volunteers spent most of one Saturday painting, with some returning the following day for touch-up and clean up. The following Monday, Treadwell elementary students were greeted with two dramatically changed hallways. Where there were once cream-colored cement blocks, colorful murals now stand—images that we hope will brighten students' days and encourage their success for years to come.

Treadwell Facilitator Forrestine Owens expressed her appreciation to the Sharpe "artists" in a thoughtful thank you letter: "I want to personally thank your team for

graciously volunteering to do the murals. You did a wonderful job of making the students and teachers experience the warm feeling the murals give. I wish you could have seen the smiles on the students' faces as they entered the building on Monday morning. Our parents were delighted to see the colorful paintings as well. We can't thank you enough."

## Food bank deposits

For Sharpe's second service project, employees were divided into teams to collect canned goods for Operation Feed, the largest food drive specifically for area corporations to benefit the Memphis Food Bank. For two weeks, team members filled their collection boxes past overflowing. There was a friendly competition to see which team would donate the most food. At the end of the food drive, Sharpe employees had amassed hundreds of food items for the Memphis Food Bank. All the donations will help provide nourishment to the elderly and children in the community.

"Through both the mural project and the food drive, all the Sharpe staff came together, gave of their time and talents, and made a difference in our community," said Tom Dyer, Chief Executive Officer of The Sharpe Group. "In the process, we learned a lot about each other and had a lot of fun. I am very proud to be a part of this dedicated, generous group of people. And we are all looking forward to working together to serve the local area in the future."

## \$300 Billion...continued from page 1

approximately two-thirds of household charitable giving in the U.S. Ninety-eight percent of these households give to charity. The average giving level is in the \$80,000 to \$120,000 range, depending upon whether giving to family foundations or advised funds is included.

The Bank of America study also reports the following:

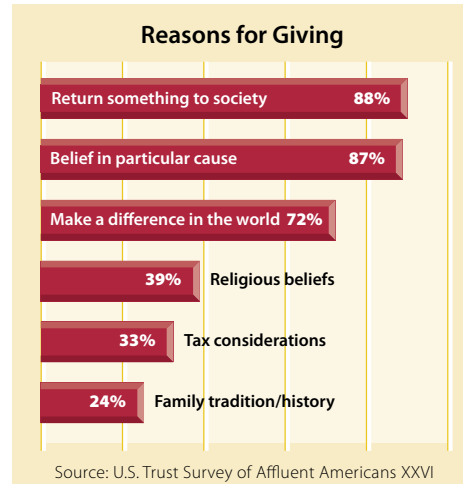
- The top three reasons for giving cited by high net worth donors are meeting critical needs, giving back, and helping others.
- Almost one-third of high net worth households have given stock (31.8%).
- Approximately two-thirds have given to a major campaign within the last year.
- Over the past five years, while more than 70% experienced an increase in wealth, 60% reported that their income remained the same or even decreased.
- If the estate tax was eliminated, approximately 85% of high-net worth individuals who had named a charity in their estate plans would either keep their bequest giving at the same level or increase it.
- Current giving generally increases with age until age 70, when it then begins to decrease.

*The U.S. Trust Survey of Affluent Americans* focuses on an elite group of households—those with investable assets of \$5 million or more. Equities are their number one investment category—stocks and bonds account for 59% of their investments, and 93% own securities.

Just as previous surveys of donors of average wealth have found, tax considerations are among the least cited reasons for giving to charity by the ultra-wealthy (see chart in next column).

Finally, *Wealth in America 2007*, which evaluates the characteristics

of an estimated 4.1 million U.S. households with \$1 million or more in investable assets, reports that 20% of millionaire households increased charitable giving in 2006, with the wealthiest increasing their giving the most.



The report also points out generational differences in giving. For example, Generation X millionaires are touted as more generous than either Baby Boomers or members of the Silent Generation. More than one-fourth (26%) of Gen X millionaires made contributions in excess of \$20,000, compared to 15% of Boomers and 13% of Silent Generation millionaires. Gen X millionaires were also approximately three times more likely to make gifts of \$100,000 or more. This may be a result of life cycle factors, such as still working, considering retirement, or being retired.

### Consider the matrix

These reports and others provide valuable information if one knows how to use it wisely. Experienced fundraisers and anyone who has ever seen a traditional fund-raising pyramid recognize the importance of a relatively small number of large gifts to any type of fund-raising campaign. In the same vein, the Sharpe Gift Planning Matrix® may help you

develop specific strategies for the various segments of your donor base.

To reach high net worth donors, we suggest that you segment your donor file in a way that will help pinpoint the wealthier portion based upon the wealth, income, and giving information that is available to you. If income or wealth data is not obtainable, giving history can help you identify high dollar and gift-in-kind contributors (those who give stocks, bonds, etc.)

Next, segment your high net worth group by age. We suggest the following groupings: under age 50, age 50 to 70, and age 70 and over. Note that the Bank of America study found current giving by the wealthy increased until around age 70, after which it began to decline (see chart on page 6).

The top of the Matrix is a small and elite group of any organization's donor base. If drawn to scale, the boxes that form the top of the Matrix would be very thin in comparison to the rest of the Matrix, and, even among themselves, the boxes of the upper groups would vary in thickness.

Recognize that both the Sharpe Gift Planning Matrix and Sharpe Donor Lifecycle can be useful in developing strategies to employ this fall. After considering gift history, wealth, and age, begin looking at other factors: Have they given stock in the past? Are they business owners? If they are corporate executives, are their companies' stocks publicly traded? If they are retired and over 70½, are they likely to have an IRA they do not need? Are they single? Do they have children? Have they been volunteers? Do they have proposals pending? Do they have a life income gift?

*Continued on page 6*

# \$300 Billion ... continued from page 5

## Sharpe Gift Planning Matrix®

Wealthy		
-50 Younger	50-70 Middle-Aged	70+ Older
<b>A1</b> Gifts of Cash Appreciated Property Charitable Lead Trusts Term of Years Trusts Life Income Gifts for Others	<b>B1</b> Gifts of Cash Appreciated Property Charitable Lead Trusts Term of Years Trusts Life Income Gifts for Others	<b>C1</b> Gifts of Cash & Property Charitable Lead Trusts Term of Years Trusts Life Income Gifts for Others Bequests Gift Annuities Life Insurance Beneficiary Retirement Plan Beneficiary

Younger donors and prospects in the high wealth or income level should be given special attention based upon the Wealth in America 2007 study's finding that

Older wealthier donors over age 70 should also be exposed to information about the special opportunity for IRA giving. They may be able to make tax-free gifts up to \$100,000 from an IRA prior to December 31, 2007. They also may be interested in possible gifts that can increase their income levels.

Those who advise donors and prospects about gift opportunities that fit their stage in the donor life cycle, based on age and wealth, are likely to find a few "diamonds" in the rough who can be "polished" before year-end. Another benefit may be finding others that will require more "polishing," but who could shine just as brightly through future gifts in 2008 and beyond.

Gen X millionaires are more generous than their older high net worth counterparts. Gifts of appreciated securities should be promoted across the entire top of the matrix, because the Bank of America study notes that almost one-third of affluent donors have given appreciated securities in the past. If good wealth information is not available, consider including corporate executives and those with better than average giving history.

Wealthy		
A1	B1	C1
Gifts of Cash Appreciated Property Charitable Lead Trusts Term of Years Trusts Life Income Gifts for Others	Gifts of Cash Appreciated Property Charitable Lead Trusts Term of Years Trusts Life Income Gifts for Others	Gifts of Cash & Property Charitable Lead Trusts Term of Years Trusts Life Income Gifts for Others Bequests Gift Annuities Life Insurance Beneficiary Retirement Plan Beneficiary
Moderate Means		
A2	B2	C2
Gifts of Cash	Gifts of Cash Appreciated Property Charitable Lead Trusts Term of Years Trusts Pooled Income Fund	Gifts of Cash & Property Bequests Charitable Trusts for Life Term of Years Trusts Pooled Income Fund Gift Annuities Life Insurance Beneficiary Retirement Plan Beneficiary
Limited Means		
A3	B3	C3
Gifts of Cash	Gifts of Cash	Gifts of Cash Bequests Gift Annuities Life Insurance Beneficiary Retirement Plan Beneficiary

## Endowment ... continued from page 2

encourage the restriction of bequests and other planned gifts. The practical result of such a campaign may be simply to repackage planned gift development efforts and restrict a much larger share of the funds raised.

### Detering foundations

Foundation grants can also be affected if a large future "endowment" is announced. In the wake of a campaign where many future "endowments" were announced, one organization reported less success in attracting local foundation grants following publicity of a \$20 million "endowment," which had been raised primarily through crediting the future value of life insurance and other gifts that would not be received for decades in some cases.

The actual cash value of the endowment was a small fraction of

this amount, and much of that was committed to the payment of life insurance premiums to keep the policies comprising the future endowment in force. Lower interest rates since the close of the campaign have also resulted in reductions in the expected value of the insurance policies when they eventually mature.

Individual donors can have similar reluctance when asked to make regular contributions after hearing of the creation of a multi-million dollar "endowment" of this type for an institution.

From a donor-relations standpoint, we have also found that the volunteer-based strategy of an "endowment campaign" may actually make it more difficult to complete some planned gifts. Many donors have an understandable reluctance to discuss such sensitive gifts with volunteers from the com-

munity who may be peers or social acquaintances.

### Restrict gifts one by one

Planned gifts can be a wonderful source of endowment when, after consideration by the donor and representatives of an organization on a case-by-case basis, it is decided it is best to restrict the gift for future endowment. But a broad-based campaign with the stated goal of restricting bequests and other future gift commitments for endowment may eventually lead to a full "reservoir" of funds—but funds that can't be tapped when needed most in times of drought.

An organization should carefully consider all present and future ramifications before embarking on a campaign to restrict future "inheritances" solely for endowment purposes.

## A Bird in the Hand...

Informing your donors about the opportunities that exist this year for IRA giving contained in the Pension Protection Act of 2006 (PPA) is easy. The Sharpe brochure **"The Charitable IRA"** explains to donors why there may be no better time than the present to make charitable gifts from their IRAs.

While there is still a chance that some version of the IRA charitable rollover provisions provided by the PPA could be extended or expanded, this is by no means a foregone conclusion. Meanwhile, some have reportedly been reluctant to promote the existing charitable IRA provision because of the pending legislation.

One thing is certain though—the PPA provisions are still in effect until the end of this year. Your donors need

to know the advantages of giving IRA assets before the close of 2007, including:

- Those age 70½ or older who make charitable gifts directly from their traditional or Roth IRA can do so tax-free.
- Donors may give all or a portion of their mandatory IRA withdrawals up to \$100,000 this year.
- Donors over 70½ who are not able to itemize their tax deductions can give directly from their IRA and achieve the same benefits as if their gift was fully deductible.
- Taxes need not be paid on funds directed to charity that would not otherwise be deductible under the laws of some states.

Time is of the essence. IRA provisions are currently set to expire by the end of 2007. Those who fail to promote the existing benefits of giving retirement plan assets this year are less likely to receive IRA gifts than those who do communicate this opportunity to their donors in a timely manner. Act today to help ensure your donors the opportunity to take full advantage of the existing law.

To view "The Charitable IRA" brochure, visit the Sharpe Web site at [www.sharpenet.com/irarollover](http://www.sharpenet.com/irarollover). If you would like to speak to a Sharpe representative or place an order, please call 1-800-238-3253.

## Year-End Just Around the Corner

Leaves are changing, the night air is crisp, and many are already turning their thoughts to Thanksgiving and the holiday season. Now is an ideal time to make plans for communicating with your donors during the upcoming year-end season.

The final months of the year are often the busiest giving season for many organizations and institutions. The Sharpe Group has created four brochures designed to help you make the most of the year-end giving season. These attractive brochures offer a convenient and economical way to communicate with a broad group of donors about ways they can give most effectively before the end of 2007.

**"Giving at Year-End"** points out the advantages of making gifts with various assets, such as cash, appreciated property, retirement plans, and others. This brochure is offered in two unique designs.

**"Giving Thanks at Year-End"** emphasizes the spirit of Thanksgiving and how it can carry over and motivate charitable giving throughout the fall months.

**"Giving Before December 31st"** stresses the importance of timing one's charitable gifts for maximum tax benefits. This brochure may be especially appropriate for use in communications with donors in the final months of the year.

Each brochure features references to the importance of reviewing long-range plans at year-end as well. All of these publications reflect current tax laws regarding gifts of IRAs that are available until the close of 2007.

Brochures may be personalized with your logo and contact information on the front and/or back cover or may be totally customized to fit your needs. See [www.sharpenet.com/year-end](http://www.sharpenet.com/year-end) to see each brochure in its entirety. Call 1-800-238-3253 for more information or to place an order with a Sharpe representative.



# Sharpe Gift Planning Seminars

Development executives have relied on The Sharpe Group for premier training for over 40 years. If you want to increase your awareness of gift planning techniques and help your program reach its full potential, there is still space available in the following Sharpe Training Seminars:

## October

An Introduction to Planned Giving

Tampa

October 29-30

## November

An Introduction to Planned Giving

San Francisco

November 28-29

## December

Integrating Major and Planned Gifts

Washington, D.C.

December 3-4

## January


An Introduction to Planned Giving

New York

January 7-9

Registration is always limited to allow for more interaction between participants and instructors. Previous seminar presentations have sold out. Register early to ensure your spot.

For more details or to register, see page 3, call 1-800-238-3253 ext. 5313, or visit [www.sharpenet.com/seminars](http://www.sharpenet.com/seminars).

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