

## Setting Reasonable Expectations for 2008 and Beyond

by John W. Jensen

**F**or planned gift development efforts to be successful, expectations must be reasonable. Due to the inherent nature of planned giving, senior managers sometimes have trouble developing realistic expectations about what level of success is possible for a particular organization or institution.

If expectations are unreasonably high, management will never be satisfied. This results in low morale, greater staff turnover, and frequent changes in marketing and other vital components of a program.

If expectations are too low, staffing and budgetary support will not be available and staff may not be motivated to produce the highest possible results.

Four areas critical to setting reasonable expectations are:

- External input
- Potential based on the nature of the constituency
- Following the appropriate planned giving program model
- Appropriate budget for staffing and other resources

### External input

External input can come from board members who assume that your organization can do the same thing as another charity on whose board they serve. The constituency and mission of one group can be different from that of another, with



**Looking for training on the West Coast? Join Sharpe in San Francisco this February for the seminar "Integrating Major and Planned Gifts." See page 3 for more.**

very different potential. The same thing can occur when a CEO sees a similar organization doing well with planned giving and thinks that his or her group should be doing equally well. The success of any organization today reflects a lot of work that may or may not have been done in the past. This is a fact not often understood.

In some cases, a major contributor to incorrect expectations is the much publicized 1998 intergenerational transfer of wealth study. While this "Wealth Transfer" projection was greeted with high expectations, the reality has simply not kept up. This may be one of the first expectations that needs to be corrected.

There is indeed going to be a major transfer of wealth over time. However, the vast majority of this wealth will not pass until the baby boomers begin to pass away some 20 years from now. In fact, nearly everyone reading this article will have retired or expired by the time the transfer has largely occurred. Why? Simply put, the full "Wealth Transfer" was based on a 55-year period that included three different generations passing away.

The original study's mid-range projections stated that during the first 20 years charities would receive \$2.2 trillion in bequests.

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# Corporate Governance Update: Part 2 by Thomas R. Dyer

Editor's note: Last month, *Give & Take* brought you Part 1 of an article on corporate governance. We reported on the recent meeting of the National Association of Attorneys General (NAAG)/ National Association of State Charity Officials (NASCO) and examined questions raised by the activities of some high-profile nonprofits and individuals involved with them, and discussed the themes of transparency and accountability. In this month's follow-up article, we examine other recent developments, including some aspects of the proposed new Internal Revenue Service Form 990.

It is important to be aware that the IRS is not the only federal entity interested in the issue of accountability and transparency of nonprofits. This issue is also on the radar screen of the legislative branch as well as regulators at both the state and federal levels.

Recently, for example, Iowa's Charles E. Grassley, the ranking Republican on the Senate Finance Committee, began investigating six well-known religious organizations. Senator Grassley stated, "The allegations involve governing boards that aren't independent and allow generous salaries and housing allowances and amenities such as private jets and Rolls-Royces. I don't want to conclude that there's a problem, but I have an obligation to donors and the taxpayers to find out more."

Such concern was not limited to congressional leaders. In response

to the action of Senator Grassley, Marvin A. Olasky, editor of *World* magazine, a respected and influential publication, stated, "These organizations should be pressured to disclose information. If glasnost worked in the Soviet Union, it can work in relation to these ministries."

Senator Grassley has requested that the six ministries provide additional information about their spending, including compensation and benefits, board structure, and oversight. Since the six churches are classified as religious organizations, they are not required to file Form 990, which would outline the details of their financial affairs.

## The question is not whether the IRS should be involved in corporate governance: it is already involved.

Recently, as reported in the *Chronicle of Philanthropy*, in response to some nonprofit hospitals' objection to the proposed content of Form 990, Senator Grassley stated that if nonprofit hospitals continued to push for what he called a "watered-down" version of the proposed schedule H,

which would accompany the new Form 990, he would consider legislation that would create stringent new rules for hospitals.

In these statements by Senator Grassley, we gain insight into the mood of Congress in regard to the significance of transparency and accountability, and we better understand the importance and the priority Congress is placing on the new Form 990.

## Form 990 gets a makeover

The proposed new Form 990 is this tax form's first major overhaul since 1979. With the updates, the IRS has taken the opportunity to help create an environment in which the public, donors, regulators, and legislators can have a better understanding of how a specific organization works or, in some cases, does not work.

Regardless of the final format of the new 990, it is apparent that corporate governance is very important to those at the federal level. Materials submitted by parties in response to the proposed 990 acknowledged that transparency in the nonprofit area is critical.

Two good examples of the type of responses the IRS has received are from the Taxpayer Advocate Service and BoardSource. In a letter from the Taxpayer Advocate Service, the introductory sentence

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## GIVE & TAKE

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# Sharpe Gift Planning Institute

## Featured Seminar: Integrating Major and Planned Gifts

This seminar is designed for those responsible for major gifts, planned gifts, or both. Managers with a need to better integrate the efforts of specialists in these areas will also find it of benefit.

The number of donors in the traditional age range for bequests and many other planned gifts is now stagnant as the G.I. Generation passes from the scene. At the same time, the Silent Generation and unprecedented numbers of Baby Boomers are moving into their prime years for major and planned gifts.

As a result, strategic organizational structures will increasingly be constructed around the age and wealth of donors rather than the timing and use of gifts. Ongoing economic uncertainty and changes in tax laws make it necessary for development executives with various responsibilities to do a better job helping donors plan and structure larger gifts.

Learn practical ways to assist donors in making gifts most appropriate to their age, wealth, and other factors while meeting institutional funding needs. Special emphasis will



be given to working with donors' advisors to create gifts with the greatest charitable benefits on an immediate and long-term basis.

## On the Agenda for 'Integrating Major and Planned Gifts'

### Day One

- Understanding the Donor Lifecycle
- Tax Incentives for Charitable Gifts—What's Left?
- Managing the Donor Matrix
- The Best Planned Gifts in Today's Environment
- Helping Baby Boomers Make Cost-Effective Gifts
- Making Gifts from Existing Estate and Financial Plans

### Day Two

- Meeting the Needs of the Silent Generation
- Gift Planning for the G. I. Generation
- Making Gifts While Providing Inheritances for Loved Ones
- Maximizing Existing Deferred Gifts
- Integrating Current and Deferred Gift Marketing
- Working With the Donor's Advisors—Are They Friends or Foes?

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 . . .

*"The information you shared regarding practical ways to integrate age and wealth into donor gifts was exactly what I had hoped to take away from the presentation. Thanks!"*—Anne Marie Chastain, Indiana University Foundation, Bloomington, IN

*"For an experienced development officer, this has been a great refresher and a re-energizing two days."*—Doug Smith, Church World Service, Pomona, CA

*"This seminar opened my eyes to gift plans suitable for different age groups and situations. The Gift Planning Matrix will be valuable for me."*—Richard Juday, Central Michigan University, Mount Pleasant, MI

## UPCOMING SEMINAR TRAINING DATES

### An Introduction to Planned Giving

Washington, D.C.  
March 17-19

Chicago  
April 14-16

### Planning Major Gifts

Chicago  
February 25-26

### Integrating Major and Planned Gifts

San Francisco  
February 28-29

Washington, D.C.  
April 21-22

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)

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reads, “I commend your efforts to redesign Form 990 so as to enhance transparency, promote compliance, and minimize the filing burden on exempt organizations.” On its web site, BoardSource states, “We support efforts by the IRS to redesign the Form 990 so that it enhances transparency, promotes tax compliance, and minimizes the burden of filing.”

The question is not whether the IRS should be involved in corporate governance: it is already involved. The question is how involved it will be in the future. We can get an indication to the answer by reading the remarks of Steven T. Miller, Commissioner of Tax-Exempt and Government Entities of the Internal Revenue Service. In a speech at a Georgetown Continuing Education Seminar, Miller stated, “Sunshine and good governance will drive good behavior. As physical borders diminish in importance, and with no federal counterpart to the state charity officials’ fiduciary rules on the use and misuse of charitable corpus, I believe there is a vacuum. As long as that vacuum exists, I believe the IRS is in the best position to fill it. At a minimum, we should educate on basic standards and practices of good governance and accountability. And we should strongly encourage the community in its efforts to formally elevate standards. Whether we must do more will depend on if these or similar efforts by the community are successful. Someone needs to lead the sector on this issue. If not the IRS, then whom?”

The importance of the IRS’s role in nonprofit governance was further expressed by Lois G. Lerner, a top IRS official who spoke at the

NAAG/NASCO conference in October 2007. Lerner acknowledged that while the states have responsibility for the day-to-day corporate governance of nonprofits within their jurisdiction, this does not preclude the IRS from asking questions about board governance. Lerner stated that “governance is a very big part of accountability.”

The proposed new Form 990 contains the following three questions that will likely spur discussion:

1. Did the organization’s governing body review this Form 990 before it was filed?
2. Does the organization have a written conflict of interest policy and, if so, how many transactions did the organization review under this policy and related procedures during the year?
3. How do you make the following available to the public?
  - a. Organizing/governing documents
  - b. Conflicts of interest policy
  - c. Form 990
  - d. Form 990-T
  - e. Financial statements

As a result of numerous comments from the public sector, the IRS has agreed to make some changes and to clarify certain issues. However, as of this date, there is no evidence that they have made any changes regarding the governance issues. In fact, the IRS has received very few negative comments about the transparency required by the new sections dealing with corporate governance.

## Final thoughts

In an era where board members and officials of both for-profit and nonprofit organizations are subject to more scrutiny, the IRS has decided to be a player. We in the nonprofit sector understand that when the agency that can question our tax-exempt status is interested in how we do our business, **how** we do our business becomes that much more important.

Regardless of the final format of Form 990, the landscape of corporate governance has changed and will continue to change. When top officials of the IRS, Congress, and state governments begin to inquire into nonprofits’ financial practices, charities—whether they like it or not—must be prepared and confident that when their finances become an “open book,” they have nothing to hide.

Editor’s note: For the latest on the Form 990, check [www.irs.gov](http://www.irs.gov).



**Tom Dyer is an attorney and chief executive officer of The Sharpe Group. With over 40 years of legal experience, he previously served as Sharpe’s long-term legal counsel.**

## Reasonable Expectations . . . continued from page 1

*Giving USA* reported \$23 billion in bequests in 2006 and a total of \$190 billion from 1997 to 2006. Reaching the \$2.2 trillion projection means bequests must **average** \$200 billion annually for the next 10 years. That's over 10 times the amount that has been received each year on average for the past decade!

Clearly, the original projections are not realistic. The wealth transfer will certainly come to charities. However, it will take longer and require far more work than many had rightly or wrongly assumed from this study.

There is one interesting statistic underlying the full 55-year, mid-level "Wealth Transfer." To achieve that level, bequests must grow by a compound rate of 8%. How does this compare with the past?

Using *Giving USA* figures from 1963 (the year Sharpe was founded) through 1998, the average compound rate of growth was 8%. From 1963 through 2006, it was also 8%, so to reach the mid-level projection over the entire period of the wealth transfer requires no greater growth than the average over the past four decades.

While there is no reason to believe the growth in bequests will change over time, there are factors in play that may impact that growth rate over the next few years.

People are living longer than in the past and there is much more competition for planned gifts than there was 10 years ago. Death rates are essentially flat for the next few years before beginning to increase again.

Another external issue to examine is birth rates: not today's, but 1924's. Why 1924? Numerous Sharpe consulting studies show that bequest donors pass away, on average, at age 83. The year 1924 (84 years ago) was the high point of live births. From 1924 through 1933, the number of live

births in the United States dropped by 23%. Not until the end of World War II did rates return to the 1924 levels.

If fewer people were born 84 years ago, logic suggests that fewer will be here to pass on. This means fewer making planned gifts in the near term. With more charities

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seeking planned gifts from fewer donors, the competition for planned gift funds will be intense! While the best managed programs will no doubt outperform others, the knowledge that there will be fewer donors passing away in the case of some organizations may need to be built into program performance expectations.

Other external forces that will impact planned giving in various ways include fewer marriages, fewer divorces, and more people living alone. It means more childless couples, more IRAs and 401(k) plans, and fewer people paying into Social Security. The nature of your organization's mission will also impact your ability to attract planned gifts. Organizations with more emotional missions can generate planned gifts quickly and at an advanced age, while those groups with other types of missions must take a different approach.

## The nature of your constituency

In order to determine your planned giving potential, look closely at your constituency. What is the age breakdown of your donors? Obtain good age data on your donors. Without it, setting realistic projections about your long- and short-term potential is impossible.

Planned giving works best with older (over 65 or 70) donors, while major gift programs tend to work best with relatively younger (age 45 to 65) donors.

If your constituency is largely baby boomers or younger, planned giving may not be the best place to invest a great deal of money. Adjusting your planned giving expectations in this case is important. While you may have substantial long-term potential, your program should invest more heavily where results can be expected within a reasonable time period, say the next 10 years. Keep in mind that a 65-year-old woman typically enjoys a life expectancy of nearly 20 years.

While some suggest marketing planned gifts to donors in the 50 to 70 age range, this will not result in any significant increase in bequest income for decades, at the earliest. It is not unusual these days for persons to live to age 100 or beyond. You can safely bet that far more planned giving donors will be in this group of "centennial" seniors.

Donor age also relates to the investment you can afford to make. One dollar invested today at 8% will be worth \$43 in 50 years. Before investing very much planned giving marketing money in younger donors, think carefully.

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What is the gender and marital status of your donors? Some subsets of donors have nearly a 50% probability of making charitable bequests.

Do you have a large number of long-time, frequent donors, or do your donors tend to make a few gifts and drop off the file prior to the time when they are making their final estate plans? Do you generate a large percentage of bequests from non-donors? Some organizations do, while it is a rare occurrence for others.

Do your donors generally have living family members or are they mostly childless with few family members remaining?

Do you have a particularly wealthy constituency? Did most of them make their own fortunes or inherit them?

## What about taxes?

Is there a sense that with the reductions and currently planned repeal of the estate tax, bequests will go down? Is that a realistic concern? Our nation has a long tradition of philanthropists who made charitable bequests with no tax benefit because there was no tax code: John Harvard, Leland Stanford, Benjamin Franklin, John D. Rockefeller, and John Smithson all made big gifts without tax benefits. Today, in similar fashion, over 95% of bequests come from those who receive no estate tax savings at all.

## Program models: one size does not fit all

Over its 43 years, Sharpe has observed at least eight different models that include efforts to encourage planned giving to a greater or lesser extent.

Here are the models that we typically see:

**Model 1:** Executive Director, no full-time development director.

**Model 2:** A full-time development director, but no full-time planned or major gift staff.

**Model 3:** One or more full-time planned giving staff members, but no major gift specialist.

**Model 4:** One or more full-time major gift officers, no planned giving staff.

**Model 5:** At least one full-time major gift officer and one planned giving officer.

**Model 6:** At least one person who is responsible for encouraging both planned and major gifts, and perhaps several.

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**Model 7:** Centralized support for major and/or planned gifts. This model is common within universities and national groups with local affiliates.

**Model 8:** Capital or “endowment” campaign planned or in progress. In this model, other infrastructure is subordinated to capital structure. Model 8 can occur in the context of any of the other seven models.

Which model is appropriate depends on any number of factors, including the size of the constituency, age and wealth distribution of donors, the nature of the mission, and geographic factors.

## Budgetary considerations

A good rule of thumb for an effective program is for staff and

marketing expenses to be roughly equal. When an inordinate amount is spent on staff, there is little left with which to market and the long-term results will be limited. Those investing heavily in marketing and little in staff to cultivate relationships will lose out to groups that will gladly steward your donors—and the gifts they will make.

Beyond the specifics of a planned giving budget for a given year, a more critical issue is the level of consistency from one year to the next. Are efforts to encourage planned gifts steady, or does your institution have a history of “bursts” of activity that yield great results for a period of time in one to three years, then tend to fall off?

This “roller coaster” approach to planned giving is all too common, but it is also inefficient and wasteful over time. Each time the effort stalls, much is lost and donors who no longer hear from you will go elsewhere with their gifts—and you may not know until it’s too late.

Experience has shown that steady, consistent marketing is the most effective way to build and maintain a successful program. It is critical to follow up and steward donors, but it is also important to include a “drip marketing” approach. Put planned giving and estate planning messages in front of prospects on a regular, frequent basis. You want donors to remember you at the time when they ultimately decide to update their estate plans.

In summary, a good, effective planned giving program must create and continuously maintain realistic expectations for success. Identify the key aspects leading to

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## Versatile Booklet Offers Giving Tips for 2008

If you are looking for a convenient way to give donors basic information on the most effective ways to make charitable gifts, turn to The Sharpe Group's new booklet "**7 Ways to Give in 2008.**"

Designed to appeal to a broad range of donors, this booklet provides general information about giving options that your constituents may want to consider as they plan their gifts this year. "7 Ways" also explores important factors that can affect the size of gifts, including how to choose the best assets and timing for gifts.

This booklet focuses on these seven ways of giving:

1. **Giving cash**
2. **Giving securities**
3. **Giving real estate**
4. **Giving other assets**
5. **Making future gifts**
6. **Giving and retaining income**
7. **Making a temporary gift**

Purposefully written with a minimum of technical language that might overwhelm some readers, "7 Ways" explains in simple terms how to make certain gifts that may

at first seem complex, such as gifts of life insurance, retirement assets, or stock. The mainstays of most planned gift programs—bequests and life income gifts—are also featured as ways to make future gifts.

Consider providing "7 Ways to Give in 2008" to your better donors and prospects as a helpful acknowledgment and follow-up piece. For example, send it to those who gave above certain levels in 2007 along with acknowledgment letters thanking them for their gifts last year. This is a simple and convenient way to educate donors about the variety of giving options available to them and the tax and other benefits associated with such gifts.

In addition to donors, this booklet may be useful for advisors, key volunteers, and others who may be working with donors in the context of campaigns and other fund development efforts.

"7 Ways to Give in 2008" may be personalized with your logo and contact information on the front and/or back covers. Other personalization options are available if desired. For more information, call 1-800-238-3253 or visit our web site at [www.sharpenet.com](http://www.sharpenet.com).

### 7 WAYS TO GIVE IN 2008

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this success based on your constituency and situation, with a particular focus on the age of your donors. Once this has been done, create a program based on your unique constituency. Make sure that key players understand the model that you are following and why it will work best for you.

Editor's note: This article was based on a more detailed presentation given by John Jensen at the National Conference on Planned Giving in Dallas in October 2007.



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# Sharpe Gift Planning Institute

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 Gift Planning Institute Seminars:

## February

Planning Major Gifts	Chicago	February 25-26
Integrating Major and Planned Gifts	San Francisco	February 28-29

## March

An Introduction to Planned Giving	Washington, D.C.	March 17-19
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## April

An Introduction to Planned Giving	Chicago	April 14-16
Integrating Major and Planned Gifts	Washington, D.C.	April 21-22

## May

Planning Major Gifts	New Orleans	May 5-6
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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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