

GIVE & TAKE[®]

News and Ideas for Development Executives of Nonprofit Organizations

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Why Not Cut Planned Giving? by Robert F. Sharpe, Jr.

As the new year unfolds and the fund-raising efforts of 2008 are tallied, we see mixed results. Some are up, some are down, and some are flat. But one thing is certain—2009 will not be business as usual.

History indicates giving in America tends to hold relatively steady during recessionary periods, and may not decline as much as the overall economy. We are no longer in an environment, however, where a rising tide will raise all boats.

The key to success in today's environment is knowing where to focus efforts in ways that will produce the most funding, and what to trim to maximize those results. Some cuts are obvious. Lavish events, for example, may be the first to go. Or perhaps development officers should now add a day or two to a trip and use the time to make additional donor visits or combine visits with training or other needs, and therefore stretch one airline ticket to do the work of two.

With a little planning and creativity, it may be possible to cut costs without a commensurate reduction in funding.

Here's a cost-saving idea you'll probably hear: "Why not cut the planned giving program?" After all, it takes years to show results from such efforts, and this can always be done later when the dust settles. Now is the time to focus on the "real money."

Unfortunately, to a greater or lesser extent, in the coming months

some will take this approach—an approach that is completely understandable in light of some of the recent misdirected "advice" of "experts" in the field.

If a major priority of your organization or institution is to encourage notification of bequest expectancies from 45-year-olds, then "pausing" costly efforts to market such gifts may make a lot of financial sense in today's environment.

Your planned gift efforts may have never been more critical.

For many, however, their planned giving program represents a framework for helping donors make gifts as part of their final estate plans.

In addition, it may include helping donors of all ages make near-term gifts while confronting and neutralizing natural financial objections that may otherwise preclude the completion of those gifts. If this describes your situation, then your planned gift efforts may have never been more critical.

The best gift planning efforts represent ways to help donors make larger gifts they genuinely want to make during times when their usual methods of giving may seem too risky or would deplete their resources before first meeting other needs.

An "extended" pledge?

For example, which might a donor prefer—a pledge that requires five annual payments of \$100,000, or an alternative gift such as a transfer of low-yielding stock through a simple agreement that immediately reduces the donor's tax burden, provides a predictable, fixed income for five years, and then funds a \$500,000 endowment with a single transfer at the end of a five-year campaign when the donor also retires?

Is this a "major" gift? A "campaign" gift? An "endowment" gift? A "special" gift? A "leadership" gift? An "alternative" gift? Or is it a "planned gift?"

Do you present this to a donor as an opportunity to fund a five-year, term-of-years charitable remainder annuity trust? Or do you ask if they might be interested in a "balloon pledge?"

What about bequests?

Cutting mass marketing of bequests to people with 30- to 40-year life expectancies is a move that can help reduce costs without negatively impacting results in the near term.

See the summary of the recent survey conducted by the American Council on Gift Annuities on page 4. The ACGA concluded that targeted mailings were one of the most effective ways to encourage bequests and other planned gifts.

Study after study reveals that wills that actually leave funds to

Continued on page 5

Charitable Trusts, Leading the Way by Barlow T. Mann

It may come as a surprise to many gift planners, but charitable lead trusts have proven to be the fastest growing type of charitable trust in the new millennium. According to IRS figures, the number of charitable lead trusts increased almost 40% between 2001 and 2007. It's likely that the combination of depressed asset values and historically low AFMR discount rates will add new fuel to the attractiveness of this gift planning strategy among more sophisticated donors and their advisors.

What is a lead trust?

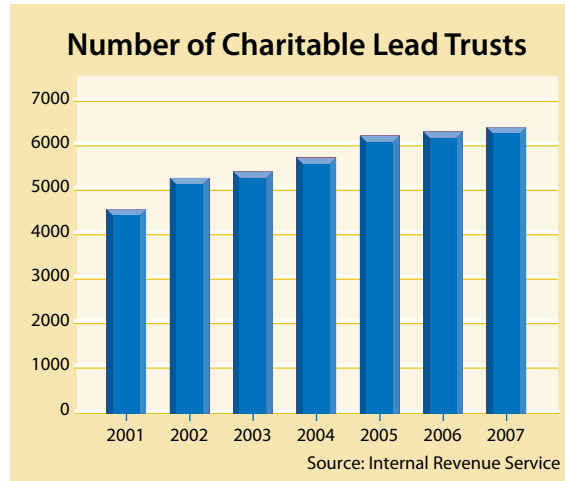
Conceptually the charitable lead trust operates in the reverse of a charitable remainder trust. Instead of individuals receiving income for life or a term of years with a nonprofit organization receiving the remainder, the charity receives its gift first and the donors or others receive the trust assets at the end of the trust term.

Many donors and planners became intrigued with charitable lead trusts after learning about a provision in Jacqueline Kennedy Onassis' will that would effectively eliminate gift and estate transfer tax on a significant fortune by providing income interests to charity for a number of years.

Facts and figures

The chart above illustrates the growth in the number of charitable

lead trusts that filed informational returns with the Internal Revenue Service between 2001 and 2007.



Not only did the number of charitable lead trusts grow by 40%, but the amount of assets held in lead trusts grew by 74%. During the same period, the number of unitrusts grew 13% and the assets in unitrusts grew 20%.

What may be surprising to many gift planners is the size of charitable lead trusts. IRS figures reveal that 63% of charitable lead trusts report assets of \$1 million or less. The average size of those trusts is \$374,000. Some 85% of charitable remainder unitrusts hold less than \$1 million and these trusts average \$343,000 in size. When looking at the \$1 million to \$10 million size range, lead trusts averaged \$2.86 million while unitrusts averaged \$2.74 million. It thus appears that charitable lead

trusts are being created in similar amounts as the most popular form of charitable remainder trusts.

How much to charity?

Each year, thousands of new charitable trusts are created and thousands of existing charitable trusts terminate. With a remainder trust, charities typically receive their benefit when the trust ends. In the case of a lead trust, the charity receives benefits every year the trust is in existence. As the number of charitable lead trusts has grown, so has the amount of annual distributions. As a result, charitable lead trusts now provide more funds to charity in a given year than either terminating annuity trusts or unitrusts.

Now may be the time

As mentioned earlier, a number of factors may contribute to an increased interest in lead trusts in the coming year. Donor psychology as it relates to the current economic challenges may play an important role.

For example, wealthy donors who would have made sizeable outright gifts a year ago may feel it is no longer as feasible to do so, especially if their investments have lost 20% to 40% of their value over the last year. Some of those

Continued on page 6

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On the Agenda for 'An Introduction to Planned Giving'

Day One

- Charitable Gift Planning in Perspective
- Overview of Property and Tax Considerations
- Gift Planning Tools: Part 1
- Gift Planning Tools: Part 2
- Practical Case Studies
- Gift Acceptance Policies and Infrastructure

Day Two

- Planned Gift Marketing
- Preparing for Donor Contact
- Creating Proposals and Other Written Communications
- Effective Use of the Telephone
- The Personal Visit
- Stewardship and Recognition - The Margin of Excellence

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

Sharpe Gift Planning Institute

Featured Seminar: An Introduction to Planned Giving

This seminar provides an introduction to charitable gift planning in today's environment. It is designed for those assuming responsibility for planned giving, as well as executives with multiple duties who are looking for the best ways to spend their time and resources on planned giving.

Beginning with an overview of the role of gift planning in maximizing charitable giving, this seminar examines the personal priorities of donors at different stages in life and explains how more effective

gift planning can help them make significant current gifts as well as plan legacies through bequests, trusts, gift annuities, and other popular gift planning techniques.

Also included is instruction on communicating the benefits of planned gifts to broad groups as well as the use of the telephone, written correspondence, personal visits, and other ways to manage relationships with planned gift donors and prospective donors that are appropriate, tasteful, and effective.

What Attendees Are Saying . . .

"This was a well-presented conference and will be very helpful to me back at the 'ranch'!"

—Stephanie Neff, Genesis Health Care Foundation, Zanesville, OH

"Thanks for having an ethics-based approach to donor contact/relations."

—Katherine Foreman, Blue Ridge PBS, Roanoke, VA

"Excellent seminar! Presenters were engaging and entertaining. Kept the group motivated throughout."

—Barbara Taylor, Lutheran Social Services, York, PA

Upcoming Seminar Training Dates

An Introduction to Planned Giving

San Francisco
February 23-24

New York
March 23-24

Integrating Major and Planned Gifts

Washington, D.C.
May 18-19

Planning Major Gifts

Washington, D.C.
February 16-17

Chicago
April 27-28

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 • E-mail: seminars@sharpenet.com

National Gift Planning Survey Released

The American Council on Gift Annuities (ACGA) recently released the results of a survey of gift planning among charitable organizations in the United States.

The ACGA conducted surveys in 1994, 1999, and 2004, focusing on the latest trends surrounding charitable gift annuities. The 2008 study represented an attempt to broaden the scope of previous ACGA surveys.

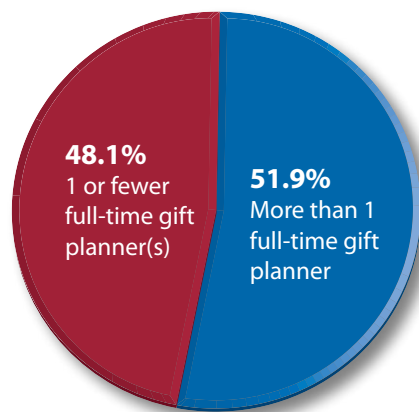
This nationwide survey of 864 organizations covered a broad variety of gift planning practices and activities. Those surveyed were asked about counting and crediting gifts, gift acceptance policies, gift administration, donor recognition, specific types of planned gifts, and other topics. Ten professional service providers and administrators were also surveyed as a part of this national study.

Importance of gift planning

The vast majority of respondents were optimistic about the future of charitable gift planning. Almost three-quarters characterized gift planning as “increasing in importance” at their organizations, while only 3% felt that gift planning was “decreasing in importance.” Nine out of ten professional planned gift service providers and administrators indicated that their clients were placing greater emphasis on various types of planned gifts, including charitable trusts and gift annuities.

Respondents to the survey reported a wide range of revenue. Of the charitable organizations that knew their annual revenues, some 20% had revenue of \$5 million or less; 22% were in the \$5 million to \$20 million range; 27% reported \$20 million to \$100 million in revenue; and 24% were over \$100 million.

There was a broad range in staffing as well. Of the respondents, 48.1% have one full-time employee or less devoted to gift planning. Another 33.4% have 2-4 full-time gift planning staff, while 11.4% reported 5-10 gift planning staff, and 7% had more than 10 devoted to gift planning.



Most successful marketing

From a marketing perspective, the survey found that referrals and targeted mailings were the most successful methods of generating planned gifts. When described as “very successful” or “somewhat successful,” targeted mailings were ranked as the most effective marketing activity by 67% of respondents. This was followed closely by articles in organizational publications and referrals from professional advisors and other development offices as successful ways to generate prospects.

Other marketing activities mentioned include check-off boxes, seminars, newsletters, articles, Web sites, and advertisements. When asked which marketing techniques were “somewhat unsuccessful” or “not successful at all,” Web sites topped the list at 39% while just 16% placed their planned giving newsletter in those categories.

Planned giving recognition societies were maintained by 81.5% of respondents. Almost 22% reported more than 500 recognition society members; 18.6% reported 201-500 members; 18.5% had 100-200 members; and the remaining 41% had 100 or fewer members.

Popular giving techniques

Charitable bequests and estate distributions were cited as the most productive source of planned gift income and new expectancies.

Just over half of those responding will serve as trustee of charitable remainder trusts, and about half of that group outsource both the investment and administration of their trusts. Another 24.9% outsource the trust investments, and only 17.4% attempt to perform both tasks in-house.

Almost 90% of survey respondents reported that their charity offers charitable gift annuities. Twenty-nine percent had more than 100 immediate payment gift annuities, 30% had 26-100 contracts, and 41% had fewer than 26 annuities.

While the 2008 survey did not address ages of gift annuitants, an ACGA survey in 2004 indicated that the average donor age was 78.1 and the average and median gift annuity amounts were nearly \$60,000 and \$30,000 respectively.

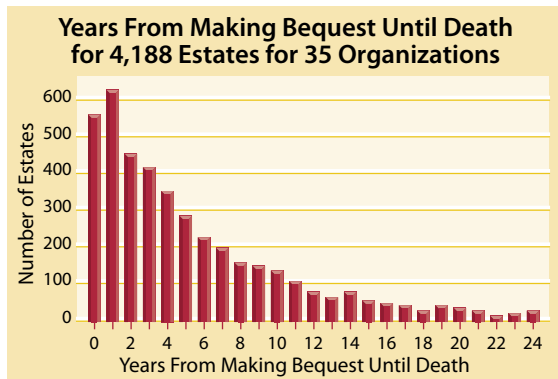
Over 76% of respondents stated that they always follow the ACGA suggested rates. Only about 2% regularly offer rates higher or lower than the ACGA recommendations. The remaining 22% said they would offer higher or lower rates in some instances. Some in the latter group only offered lower rates while others occasionally offered higher rates.

Continued on page 6

Why Not Cut Planned Giving? ... continued from page 1

charity are most often completed by persons in their late 70s to early 80s. Forty years of in-depth research by Sharpe consultants on thousands of realized bequests indicates that approximately 50% of them came from a person who executed their will within three years of death.

The chart below illustrates lag times for over 4,000 estates from 35 selected organizations representing education, healthcare, religion, social services, and other types of organizations.



This is why influencing a relatively small group of older, long-term donors who are at the point in life where they are making their final plans can positively impact your results within three to five years.

But what about earlier wills? Don't you want to be in the first will? Of course you do! People normally write wills throughout their lives when they marry, have children, retire, or lose a spouse.

People's interests change over time, however, and they actually *leave* funds to the charities that they are actively supporting at the time they execute their *last* will. If the charities they supported earlier in life, and included in earlier wills, remain a part of their lives, then those charities will likely still receive a bequest. If, on the other hand, the donors' charitable interests changed over time,

their *last* wills may include a different set of charities than their first wills.

There are other more cost-effective ways to keep the bequest message in front of younger people (the web, for example).

Programs mailing bequest packages to donors in their 50s or even younger may be able to save a great deal of budget money by letting the Baby Boomers and X'ers mature a few more years. Keep in mind that a 45-year-old enjoys a life expectancy of just under 38 years. Where were you in 1971? Where will you and your organization be in 2047?

Many managers have understandably concluded, however, that continuing to target age-appropriate messages to a smaller group of donors with life expectancies of 10 years or less on average may be a more cost-effective use of scarce bequest marketing funds.

Gift annuity communications efforts should be targeted in much the same way. Now might be the time for those marketing gift annuities to younger persons to step back and analyze their results to see how many annuities have actually been completed by those under the age of 70.

Take a look at these numbers and then determine whether the gift annuity marketing dollars directed to younger people might be better spent on more donor visits and other activities that may yield results sooner.

Where your younger donors are concerned, it may be more productive to target appropriate persons with information about deferred gift annuities, term-of-years trusts, life income gifts for older relatives, gifts of securities, charitable lead trusts, and other

ways to give that they might find more useful in today's environment.

Defining your future

If planned giving includes substantial funds aimed at encouraging younger donors to make gifts that will not be realized, on average, until they pass away in four decades or longer, then you may find this is a legitimate place to make some strategic cuts.

If, on the other hand, you want to help donors give to your organization in the most efficient, cost-effective way for a person of their age and wealth profile, you will cut planned giving at your organization's immediate and long-term peril.

Nonprofit organizations and institutions that survived and prospered during the Great Depression did so, in many cases, because their income from bequests and other planned gifts grew faster than other gifts declined. Bequests and other estate-based gifts influenced in 1931 resulted in useable funds in many cases by 1935.

These gifts came from committed donors, many of whom were moved from the current to deferred gift category late in life due to economic circumstances.

Today we must all conserve resources in every way possible. But we must conserve in ways that continue to provide donors and their advisors with the assistance they need to make the gifts, both current and deferred, that they still want to make to the organizations and institutions they care most about.

Editor's note: The content of this article is based on information in the popular Sharpe seminar "Planning Major Gifts." For more on giving during economic downturns, see www.sharpenet.com/uncertaintimes

Charitable Trusts . . . continued from page 2

persons may still consider making a significant gift if the underlying assets used to fund the gift are eventually returned to them or their loved ones.

Because a gift to heirs is considered complete at the time a lead trust is created, some advisors have reportedly been urging donors to fund lead trusts today at lower asset values so that future appreciation passes to their heirs outside their estate and free from additional taxation. Keep in mind that a lead trust, unlike an outright gift, also affords advisors an opportunity to continue managing assets for a period of time.

Also consider the potential impact of a new administration in Washington. Recent announcements that the new administration does not intend to allow the repeal of the estate tax may create greater interest in strategies that can help donors minimize potential gift or estate taxes.

Impact of discount rate

Finally, the discount rate used in calculating the benefits for lead trusts is the most attractive that

it has ever been. This means that trusts can have a lower annual payout and shorter term to “zero out” gift and estate taxes.

See the chart below which illustrates how gift tax deductions have increased in recent years for a 6% charitable lead annuity trust for a term of 20 years.

Year	Discount Rate	Deduction
2009	2.0%	\$498,000
2008	3.2%	\$443,000
2007	5.0%	\$381,000
2006	5.2%	\$375,000
2005	4.6%	\$393,000
2004	3.8%	\$421,000
2003	3.0%	\$451,000
2002	3.6%	\$428,000
2001	5.8%	\$357,000
2000	7.0%	\$326,000

In conclusion, the charitable lead trust may provide a very attractive gift option to a larger number of gift prospects in today’s environment.

Development officers should try to identify donors who may not be able to give in the same manner that they would have a year ago, but would consider an alternative gift option that allows them to fund a meaningful gift while returning assets to them or others they designate.



Barlow T. Mann is an attorney and chief operating officer of The Sharpe Group. He designs planned giving programs for a number of America’s nonprofits, presents seminars, and authors many articles on gift planning.

Survey Released . . . continued from page 4

Some 83% said they had seen increases or no change in number of gift annuities completed over the past five years with only 17% reporting a decline in the number of gift annuities.

Immediate payment gift annuities continue to be more popular than deferred payment gift annuities.

Respondents reported much higher numbers of immediate payment annuities with 58% reporting fewer than five deferred gift annuities versus 13% reporting that number of immediate annuities.

The balance of the survey examined a variety of other topics of interest to gift planners including

campaign counting and crediting issues and other gift techniques, including retained life estates, bargain sales, charitable lead trusts, pooled income funds, and gifts of life insurance. The full survey results may be accessed at the ACGA Web site, www.acga-web.org.

Start Now to Encourage Memorial Gifts

Whether they are current or deferred, large or small, all gifts can be memorial gifts. Gifts made in honor of loved ones and other significant people in their life provide donors with a meaningful way to support charitable organizations and institutions in the name of someone they wish to remember in a special way.

The upcoming spring months offer a variety of occasions that may be particularly fitting times for donors to recognize loved ones with special gifts to causes important to them—Mother’s Day, Father’s Day, Memorial Day, graduations, and religious holidays.

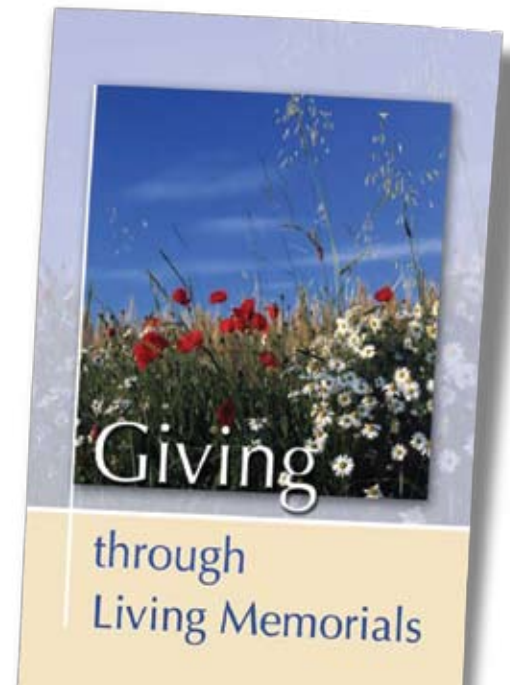
Make sure you are ready to inform donors of the many options available for making memorial and tribute gifts they may be considering. Let **“Giving Through Living Memorials”** explain the many possibilities and benefits of effective memorial and honor giving.

“Giving Through Living Memorials” explores in an easy-to-read, six-panel format the many ways memorial gifts can be funded. While most donors are familiar with immediate gifts of cash, this brochure also points out how such gifts can be funded with appreciated property or through a special designation in long-range estate plans the donor may already have in place.

Encouraging memorial gifts can be a way to augment current funding while introducing ways to make gifts through estates. Many programs over the years have found memorial giving to be a productive way to build a “bridge” from current to deferred giving.

The brochure also features a built-in response device. This convenient response panel can be personalized so your donors may return gifts and/or request additional information.

For more information about how to incorporate “Giving Through Living Memorials” into your fundraising communications efforts, or to place an order, please call 1-800-238-3253 or visit our Web site at www.sharpenet.com/pubs/ and click on “Specialty Brochures.”



There’s No ‘Alternative’ to Helping, Thanking Donors

Since many donors are likely to be organizing their paperwork in preparation for the upcoming April 15 tax-filing deadline, you may want to consider resending acknowledgment letters and/or receipts for gifts of \$250 or more. Your donors will appreciate your thoughtfulness, and you will have another opportunity to thank them for their generosity last year.

You may also want to use this occasion to encourage donors to think about alternative ways to make new gifts this year by enclosing the

booklet **“Giving Alternatives for 2009.”** Naturally, your donors may be concerned about how making gifts to charitable interests can fit into their plans in today’s troubled economy.

“Giving Alternatives” provides readers with an overview of convenient giving options that are often overlooked and underutilized, such as gifts of life insurance and retirement plan assets and strategies to “give their way” out of the stock market. The booklet contains uncomplicated descriptions of

these and other gift alternatives as well as basic examples of the gifts and their benefits for the donor.

Oftentimes the best prospects for future gifts are those who have given in the past—particularly within the past year. Don’t miss the opportunity to strengthen your relationship with your most committed donors during these challenging times. To view “Giving Alternatives,” visit www.sharpenet.com/booklets. For more information or to order, please call 1-800-238-3253.



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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 would like to increase your awareness of gift planning techniques and help your program reach its full potential, consider attending the following Sharpe Gift Planning Institute Seminars:

February

Planning Major Gifts

Washington, D.C.

February 16-17

An Introduction to Planned Giving

San Francisco

February 23-24

March

An Introduction to Planned Giving

New York

March 23-24

April

Planning Major Gifts

Chicago

April 27-28

May

Integrating Major and Planned Gifts

Washington, D.C.

May 18-19

Registration is always limited to allow for more interaction between participants and instructors. Register early to ensure your spot. CEU credits are now available through the College of William & Mary.

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