PART I

Planned Gifts

CHAPTER 1

What Is Planned Giving?

1.1 Getting Started

To donors, *planned giving* presents attractive, innovative, and creative gift options. To charities, planned giving provides avenues to reach additional donors, enlarge gifts, and generate new gift revenue. To planned giving staff members, planned giving is an exciting and rewarding career that includes mastering a body of knowledge other development professionals may not know.

And the best part of it all is that planned giving is even more than that.

Sure, planned giving has its technical side, but any field worth doing is worth learning and planned giving officers soon learn that its most difficult challenges produce its greatest rewards. Apart from the technical side, planned giving is all about people—the donors, their families, their advisors, as well as those who benefit from donors' generosity, the scholarship recipients, the patients and patrons, and the faculty and staff who advance medical and scientific technology to enhance the quality of life. Let's also not forget our colleagues, the charity's officers, trustees, presidents, and CEOs who work alongside us. In addition, remember that our work makes contributions to a larger good.

Planned giving is a gift option for the young and old, the rich and those with fewer resources, those with cash and those with stock, real estate, and tangible personal property. It is even for those with modest goals like establishing an endowed family fund compared to those with more ambitious plans like naming a building, or underwriting the cost of a center or institute.

Planned giving *is* an option in which both the donor and the charity benefit; and the one who puts it all together—the planned giving officer—also enjoys the satisfaction that comes with doing a job well.

(a) A Word About the Economy

Planned giving is a gift option that is never out of fashion and one that stands strong in the face of a weak economy or an unsettled real estate market. When donors face financial instability, they can hesitate to make charitable gifts, which is a natural response. After all, charitable giving is largely funded with discretionary income and surplus assets.

If donors hesitate, postpone decisions on their philanthropy, or stretch out their gifts, there is still much that can be done to build for the future when more favorable times return. It is paramount to continue to fill the nonprofit's pipeline with prospects. Now is the time to rebuild donor networks, reestablish visitation programs regionally, nationally, or even internationally, and reinforce the message about the important work that charities perform for the public good. It is also the time to create new relationships that may result in gifts now or in the future.

Donors have to be reminded that the charity's work continues even in the face of uncertainty, and that donors' financial support is essential to deliver the charity's services and programming. Read more about how to deal with a troubled economy in Chapter 21, Refocusing on Philanthropy, Chapter 30, Combating Donor Fatigue and Overcoming Organizational Complacency, and Chapter 46, Marketing the Noneconomic Benefits of Philanthropy, for more ideas on overcoming these challenges.

1.2 Introduction

As charitable gift planners within our various organizations, we focus much of our energy on estate planning issues, financial ramifications, and tax benefits. Yet we must also remember that a donor's act of giving, is paramount for the transaction to be completed. When a donor makes a planned gift to a nonprofit entity—usually a religious, educational, health, arts, cultural, environmental, or social services organization—the donor irrevocably parts with the asset and cannot retrieve it if it is needed in the future. If the donor does not have a real desire to benefit a charity, then the planned gift in all likelihood will not or should not be made.

PRACTITIONER TIPS

Planned giving staff members are charitable gift planning counselors helping donors fulfill their goals while securing financial support to help charities deliver services for the public good.

Planned gifts fall primarily into four categories:

1. Outright gifts, whereby the nonprofit often has use of the asset immediately, such as gifts of cash, securities, tangible personal property, and some real estate gifts
2. Bequests, whereby the donor uses or controls the asset during his lifetime and the charity receives the asset at the donor's death
3. Life income gifts, whereby a donor makes a gift today and receives a stream of income for life, and upon the donor's death the nonprofit has use of the remainder value of the gift
4. The creation of endowed funds

The nonprofit should be in a position, at a minimum, to handle successfully those gifts made through securities, bequests, and charitable remainder trusts that are established by the donor and managed outside the nonprofit. The nonprofit also should be able to easily handle the creation of endowed funds. A complete program,

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however, will be a planned giving program that offers to donors life income gifts such as charitable gift annuities, deferred gift annuities, a pooled income fund, and the opportunity to make gifts of real estate. Such a program should be managed by at least one full-time professional and be supported by additional full-time staff members.

WARNINGS

Charities should offer planned gift options commensurate with the charity's needs, staff members' level of experience and the donors' likely level of interest and financial sophistication. A successful annual fund program should be well established before implementing a planned giving program. To identify planned giving prospects look for loyal donors who have made a series of annual gifts over several years.

1.3 Planned Giving from the Donor's Perspective

Planned giving is attractive to donors for many reasons. Through a planned gift, donors often can make larger gifts than they thought possible, and for some donors this is the only way to make a substantial gift to charity. It often happens that when donors learn they can make a gift that (1) pays a stream of income for life, (2) increases the yield they may currently receive from other investments, (3) provides a charitable income tax deduction, and/or (4) reduces or eliminates capital gains taxes or estate taxes, they feel that they cannot afford *not* to make the gift. Planned giving also allows donors to be creative in making a gift. Real estate or tangible personal property that a donor is not using can be given to a nonprofit and thereby provide the donor with an income stream and various tax advantages. Conservative "blue-chip" stocks paying a 1 to 2 percent yield can constitute a life income gift and provide the donor with a substantially higher income stream, such as 6 to 9 percent. Planned giving options can encourage the charity-minded donor to act—to make the gift sooner than later.

COACHES' TIPS

Planned giving is a creative process enabling donors to make gifts greater than even what the donor initially might have thought possible. Evaluate the interest level expressed by an individual to determine whether he is likely to become a donor or is motivated to associate with the charity for another reason. Conversations with the individual will likely answer that question over time. Reaching that threshold decision as to whether an individual has potential to actually make a gift is an important part of the screening process. Celebrate the creative side of planned giving by offering one or more alternatives to a donor who is considering making a gift. Planned giving is both rewarding and fun.

1.4 Planned Giving from the Organization's Perspective

A nonprofit organization attracts more donors and gifts by offering a complete range of giving options, including a variety of planned giving vehicles. Most life income arrangements, including charitable gift annuities, pooled income funds, and charitable remainder trusts, pay an income to a donor for life. This means that the organization must invest the gift to produce a yearly income stream to the donor; it does not have use of the principal of the gift until the donor dies. This unique obligation allows an organization to build its endowment and its future through its relationship with its donors. The charity pays out an income stream, based on actuarial tables, while continuing to invest the principal amount with the purpose of generating interest equal to or greater than the income paid to the donor. When older donors make a planned gift, the organization pays a high rate of return, assuming that the donor will live for fewer years. However, building and strengthening relationships between charities and donors increases the chances that additional gifts will be made. For a more detailed explanation of life income gifts, see Chapters 2 and 3.

1.5 Planned Giving from Management's Perspective

Planned giving staff can find themselves in conflict with the nonprofit's central administration, because the demand for current cash is frequently more valued than the promise of future support through planned gifts. This lack of common goal can create problems for the planned giving officer.

AUTHOR INSIGHTS

It is important to remember that planned gift solicitations can sometimes result in a donor making an outright gift of cash. As long as the planned giving officer receives "credit" for the gift, and the charity recognizes that the cash gift is a positive outgrowth of the planned giving program, all players should be pleased. A planned giving officer who values closing cash gifts rather than simply soliciting exclusively for planned gifts is invaluable to the organization. Any gift that provides for the overall good of the organization is a valuable gift and should be acknowledged accordingly.

Central administration may include the president of the organization, the vice president for business affairs, the treasurer, and general counsel, but also may include the vice president or director of development. The vice president for development may have hired a planned giving director, with the best intentions of creating or strengthening a planned giving program, but for any number of reasons may not fully support the planned giving effort or may emphasize raising outright gifts.

This section discusses issues that impact planned giving staff members in relation to their nonprofit. It examines the way planned giving should, ideally, be viewed

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within an organization, problems that may arise related to planned giving, and some specific actions that can be taken to make a planned giving program more successful.

1.6 A Focus on the Future

Although most development staff members of a nonprofit focus on the need for current income and outright gifts, planned giving officers focus on the future. It is common to hear nonprofit presidents and vice presidents for development say, “We need cash today; we can’t wait for tomorrow.” A planned giving officer’s response might be, “If the organization had established a planned giving program 10 to 15 years ago, we would not be so pressured to raise cash today.” A development program must balance its efforts to bring in dollars today while building a foundation for the future.

There is no better way to provide for an organization’s future than through planned gifts. A successful planned giving program stabilizes and balances a development program. During a recession, annual giving programs and major gifts may suffer, but planned giving programs generally prosper because planned gifts provide such substantial financial benefits to donors. Planned giving focuses on gifts that will materialize during a 50-year period, although most gifts are realized over a shorter, 3- to 5- to 10-year period. An appetite for current cash can short-circuit the ability to produce more substantial gifts that are nurtured and cultivated over time, and organizations may lose financial support if the process is rushed, thus producing disillusioned, and sometimes alienated, donors.

AUTHOR INSIGHTS

During recessions or economic downturns, planned giving programs may outperform the charity’s annual fund or major gift programs. Quite often, this is due to the tax advantaged benefits of planned gift options. Donors with losses on stock investments may choose to make a gift of those assets, triggering favorable tax treatment. Further, bequests materialize in the life of many charities at often the most opportune times. The gift may seem serendipitous to the charity when, most likely, it was the result of the hard work of a former staff member. Never underestimate the importance of a bequest.

(a) Organizational Patience

A nonprofit organization that embarks on a planned giving program needs to adopt the notion of organizational patience, to recognize that it takes time for a planned giving program to work and for the planned giving officer to secure planned gifts. All too often, nonprofits expect instant success from the planned giving program. This rarely happens, and management can become impatient and disenchanted with the program. Instead, management must understand that a planned gift is often a large and complex gift that involves a number of financial and estate-planning decisions.

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Often the donor is elderly, and other players—attorneys, financial advisors, accountants, and family members—who frequently are involved may delay the process.

PERSPECTIVES

Even though having all the right players involved might produce delays, the resultant gift is likely to be the best outcome for all involved.

Sometimes there are too many related considerations to rush a planned gift, but once the gift closes, a satisfied planned giving donor is often a repeat donor.

(b) The Donor Is the Decision Maker

In the quest for support, management sometimes substitutes its own judgment for that of the donor. Although planned giving officers can be influential in affecting the size, timing, and scope of a donor's gift, these decisions must be made at the donor's discretion. It is important for everyone involved to remember that the donor determines:

- The size of the gift
- The timing of the gift
- The form or structure of the gift

Planned giving officers must remind management that although they understand the organization's need for current cash gifts, decisions about any gift must be made by the donor.

1.7 Cost Benefit Analysis

Some organizations decide not to begin a planned giving program because the program is labor intensive and expensive to operate. Although it is true that there are significant challenges to a planned giving officer in learning and managing, and greater operational expenses for software, management, marketing, and education, a planned giving program usually provides an excellent return on the organization's investment. If an organization does not offer a planned giving program, it cannot compete for support among its peer organizations that do offer such programs.

It is important to note that many major gifts raised by planned giving officers do not come through planned giving. Frequently a planned giving officer asks for a planned gift from a prospect but instead receives an outright cash gift. Many donors are motivated to make a major gift to an organization after reading its planned giving marketing pieces; after discussions with a financial advisor, the donor decides to make a gift with cash rather than through a planned gift. Management should consider the benefits a planned giving program can bring to a development program apart from planned gifts.

1.8 Planned Giving and Annual Giving: Partners

Some development professionals believe that planned gifts divert support from an organization's annual giving program. The argument is that, in planned giving, very few new dollars are added to the program but are instead reallocated among other programs. Although annual giving donors often are converted into new planned giving donors, planned giving donors frequently become new annual fund donors. Most annual fund donors who become planned giving donors continue to support an organization's annual giving program, and the organization benefits greatly when the $50-per-year annual fund donor becomes a $20,000 planned giving donor. It is the planned giving officer's responsibility to encourage continued giving to the annual fund. Annual fund and planned giving programs should complement rather than compete with each other.

Some development programs, as part of their metrics, require planned giving officers and major gift officers to solicit a specific percentage of donors for an annual gift. Such solicitations remind everyone of the importance of securing unrestricted funds for general operations.

1.9 Perspectives for Success: Leadership, Resources, and Staffing

Many professionals whose responsibilities lie in the area of planned giving also are involved in other development functions, which may cause a dilution of the planned giving effort and lead to management's becoming dissatisfied with planned giving efforts. To build a successful program, it is necessary for management to appoint one person to champion the planned giving effort. This individual must be able to devote at least half of his time to planned giving exclusively and must make the program a priority. Planned giving programs sometimes fail because no one is ultimately responsible for the program, given the charge to provide leadership, or given the time to make it work.

AUTHOR INSIGHTS

One of the authors of this text experienced a 50 percent growth in existing planned giving funds after just one year of focusing fulltime on the charity's planned giving programs. In addition, the charity devoted much-needed resources to underwrite marketing efforts to build the program.

Furthermore, a planned giving program can fail if it has an inadequate budget and insufficient resources. Resources must be allocated and accessible for marketing, training, and other operating necessities. Programs also fail when staff turnover is so great that the constant flow of employees disrupts the program and confuses its donors. Management should focus energy on keeping its staff. At many nonprofits, staff members are not provided incentives to stay with the organization because of salary restraints and an absence of opportunities to advance. Because planned giving is generally a revenue-producing area, adequate financial incentive should be included in the program budget.

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Competition for experienced planned giving professionals is great, and staff often change jobs because of better salaries offered by other organizations. Tenure in a development job is approximately two years, and management is just beginning to realize a return on its investment at about the time an employee is planning to move on. It is better management to reward a good staff member with financial incentives and opportunities for advancement with the organization.

PRACTITIONER TIPS

It is far more economical and efficient to retain and reward good staff members by providing additional salary benefits and incentives than to spend time and money on hiring new staff to replace former staff. After factoring in the cost of recruiting, hiring bonuses, and other perks, new staff members often cost more than those currently employed, and the current ones already know the charity and the donors.

1.10 Planned Gifts Now and in the Future

Planned giving has become one of the most attractive ways for individuals to make gifts to charity. Much of this country's wealth has traditionally been held by older Americans, those aged 60 and older, and younger entrepreneurs. As the population rapidly ages, Baby Boomers become middle-aged, older Americans live longer, and concerns about healthcare increase. Many individuals want to control their assets while living, and a planned gift allows a donor to benefit financially from the gift while engaging in a relationship with the charity. The years ahead will likely bring the largest intergenerational transfer of wealth in U.S. history, as parents transfer assets to their Baby Boomer children. This transfer creates the need for close examination of tax issues, beyond the traditional benefits of income tax savings. Passing wealth on to family members through planned giving options offers an attractive way to ensure current income for the individual and possibly additional family members while receiving tax advantages and providing for charity. Thus, nonprofits need to emphasize sophisticated planned giving techniques that provide needed benefits to donors while building their own future.

PERSPECTIVES

Engaging all members of the donor's family in the gift process encourages the growth of new generations of donors. In addition, this new generation may one day find itself in charge of the family's philanthropy. Charities that foster good relationships with all parties are likely to benefit from philanthropic choices made by new decision makers.

1.11 The New Planned Giving Donor

Planned giving has changed over the years. No longer are the majority of donors elderly widows who, cultivated over tea, make the traditional donations to a husband's alma mater and the local hospital. Today's planned giving donor may just as easily be a young entrepreneur who establishes a charitable remainder trust with new stock holdings. Planned giving donors have become much more savvy and knowledgeable, and today's planned giving officer often has extensive contact with a donor's lawyer, financial advisor, broker, trust officer, and/or accountant. Outside advisors usually are included in the process because of the range and complexity of gift vehicles available to donors of all ages, who have various personal and financial objectives. Planned giving officers need to monitor current trends in tax laws, estate planning, and financial planning, and must learn to operate in the for-profit business world, bringing its energy and expertise to the nonprofit setting.

1.12 The Young Planned Giving Donor

Traditionally, planned giving donors were older, wealthier, and better established. While generally this is still true, a younger planned giving donor has emerged at many nonprofit organizations. This donor has responded to the planned giving office's public education efforts to promote planned giving as part of the donor's overall financial and estate planning. Planned gifts like deferred gift annuities help donors prepare for retirement while they help the nonprofit. Contingent bequests name a nonprofit as beneficiary of a donor's estate in the event of the death of a donor who is unmarried without children or in the case of simultaneous deaths of a younger couple without children.

Many young donors, especially entrepreneurs and professionals, have the capacity and interest in making a mutually beneficial planned gift. Planned giving must be presented as an option that can complement, rather than compete with, the donor's financial objectives. Planned giving, properly presented, can do just that.

PRACTITIONER TIPS

Another way for a young planned giving donor to make a gift is through the creation of a named current use or endowed fund. The donor can put his or his family's name on the fund and establish terms governing the use of the fund.

1.13 Planned Giving in a Development Office

Planned giving has evolved from a misunderstood and underused development function into a professional specialization. Traditionally, planned giving was not fully incorporated into many organizations' development programs. Planned giving officers spoke a foreign language and engaged in technicalities that other development officers did not understand and, perhaps, did not want to learn. Although the planned giving field employs special techniques, a successful planned giving program is built on solid development principles. The specifics of such a program can be learned, and a planned giving officer does not need to be a lawyer, banker, or accountant to be successful. The planned giving office, as an integral part of the overall development effort, should work closely with other areas in development to further office and organizational goals.

(a) Businesslike Approach

Although successful planned giving officers build on solid development skills, there are additional characteristics that they should cultivate to enhance the position and a professional image. For example, some development officers befriend prospects and become part of their lives by running errands and doing favors. Because of the technicalities of planned giving, in many ways it is more appropriate and easier for the planned giving officer to approach the donor at arm's length, treating the donor interaction as the business relationship it truly is. By addressing business issues at the outset of a meeting, the planned giving officer can resolve such matters and leave time for more relaxed, informal conversation. Both the planned giving officer and the donor know why the meeting was arranged, so it is best to tend to the business portion of the meeting as early as possible. Donors most often make their gifts to the fundraiser who is the most skilled and professional.

AUTHOR INSIGHTS

The authors have seen this happen repeatedly. However, occasionally, the donor will elect to make the gift to the most senior person in the organization or to the vice president of advancement, even though the donor has worked almost exclusively with a very capable planned giving officer. Rank has its privilege.

(b) Expertise and Training

A planned giving officer needs to present herself as a trained, experienced professional with knowledge in several areas, including law, banking, and finance. The greater the officer's knowledge, the better able she is to anticipate questions and solve gift-planning problems. Presenting herself as an expert in this field instills confidence in donors and coworkers alike. Taking courses in estate planning, financial planning, and federal income taxation, and becoming skilled as writers and effective speakers enhance such professionalism. Courses in communications and speech can improve presentations, and entrepreneurship, business, and marketing courses provide important perspectives to invigorate and successfully continue a planned giving program. Perhaps the most important skill a planned giving officer can have is the ability to work with all types of people. A planned giving officer needs to be a good listener and conversationalist. Cultivating personal interests such as travel, sports, and literature will allow points of commonality to arise in conversations with donors who share these interests. Such conversational ease helps in negotiating the terms of a planned gift.

COACHES' TIPS

The good news is not all of these skills need to be acquired at once. Over the years, opportunities occur to improve public speaking, writing, and knowledge bases in tax or estate planning. Explore career building opportunities that improve personal and professional skills and take full advantage of them.

(c) Personal Donor Visits

Never underestimate the value of a personal visit with a planned giving donor. A planned gift requires a donor to make choices related to family and finances, and a personal visit by the planned giving officer sometimes can make the difference between whether a gift is made or not. Donors appreciate the personal attention and are flattered that the gift is important enough to the nonprofit to warrant a special visit. Planned giving is a business that is best conducted face to face.

COACHES' TIPS

This is where all the conversational skills mentioned earlier come into place. Planned giving affords many wonderful opportunities to engage fascinating people in conversation. Have fun!

1.14 Conclusion

The business of planned giving has changed over the years, but it will always rely on interpersonal connections. Planned giving is also teamwork, building effective working relationships with donors, donors' advisors and families, and fundraising colleagues. It is a complex business that needs individuals skilled in using multidisciplinary approaches to solving problems.

Part of the job of a planned giving officer is to educate management about the differences between planned giving and development in general. The rewards of a planned giving program can be considerable; however, a successful program requires patience and time. Long-term planned giving programs provide a solid foundation for a nonprofit organization and an attractive option for many donors. Cooperation and a mutual understanding of the roles of development and planned giving can serve well any nonprofit organization.