How to Become an Expert in the Conversation of Philanthropy:

Everything Nonprofits, Boards, and Advisors Need to Know to Support Donors and Clients

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I. Understanding the Donor and the Value of Gift Planning

Gift planning has never been more important to nonprofits or to donors. In an unpredictable economic environment, gift planning provides tools to help donors give more effectively, and give in a way that addresses both personal and charitable goals.

A. The Challenges in the Investment Markets

Donors are reeling from the unprecedented movement of the financial markets. These economic pressures also impact charities, whether in endowment returns, enrollment, recruiting, and basic budgeting. Before having conversations with donors, it's important to step back and look at the challenges in the investment markets.

1. Index Returns

The expanding economy and strong corporate earnings of the 1990s led to unprecedented growth in the securities markets. Unfortunately, the bull market of the 1990s led to a series of bear markets in the 2000's. In a survey of 50 to 70 year-old investors conducted by AARP in 2002, 77 percent had lost money in the stock market.[1] Twenty-five percent of that group reported losses of between 50 and 75 of their stock investments.[2] As a result, 21 percent who had not yet retired decided to postpone retirement as a result of their losses, and 10 percent who had retired decided to return to work as a result of their losses. Markets have moved up with periodic corrections over the decade. Annual returns from 1999 through 2010 are shown in Table 1. The tables do not tell the full story. Mid-market fluctuations, the reduction or elimination of dividends, and tight credit markets have created chaos. Snapshots of key recent periods of DJIA activity are shown in Table 2.

TABLE 1
MAJOR INDEX RETURNS 1999 – 2010[3]

INDEX	*1999*	*2000*	*2001*	*2002*	*2003*	*2004*	*2005*	*2006*	*2007*	*2008*	*2009*	*2010*
DJIA	25.22%	-6.18%	-7.10%	-16.76%	25.32%	3.15%	-0.61%	16.29%	6.4%	-33.8%	18.8%	11.0%
S&P 500	19.53%	-10.14%	-13.09%	-23.37%	26.38%	8.99%	3%	13.62%	3.5%	-38.5%	23.5%	12.8%
NASDAQ	85.5%	-39.29%	-21.05%	-31.53%	50.01%	8.59%	1.37%	9.52%	9.8%	-40.5%	43.9%	16.9%
DJ World	31.54%	-17.36%	-21.02%	-15.63%	38.58%	19.23%	14.4%	23.01%	11.8%	-46%	37%	10.1%
Barclays LT Treas.	-15.13%	20.11%	3.5%	14.62%	1.38%	5.06%	2.7%	1.85%	10.2%	20.64%	-13.17%	9.37%
ML Muni Master Bond Index	-6.34%	18.10%	4.5%	10.73%	2.54%	5.45%	3.9%	4.4%	4.18%	0.54%	9.4%	2.52%

[1] Brown, S. Kathi, "Impact of Stock Market Decline on 50-70 Year Old Investors", (AARP, December 2002), <http://research.aarp.org>, p. 3.

[2] *Id.* P. 4.

[3] Market information provided by Merrill Lynch.

INDEX	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Barclays Corp. Bond Index	-1.89%	9.1%	10.7%	10.17%	8.31%	5.41%	2%	4.3%	4.56%	-6.54%	18.68%	9.0%

TABLE 2
MARKET SNAPSHOTS

Date	DJIA Return Over Period
DJIA Return from December 31, 1989 to December 31, 1999	317.59%
DJIA Return from December 31, 1999 to December 31, 2009	-9.3%

2. Interest Rates

As interest rates have declined, the interest paid on bonds, certificates of deposit, checking accounts and other fixed income instruments that seniors and retired donors rely on for living expenses has also declined. For a look at how those rates have fluctuated over the last decade, see Table 3.

TABLE 3
PRIME RATES, QUARTERLY, 1998 – 2011

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Jan 1	7.75%	8.5%	9.5%	4.75%	4.25%	4%	5.25%	7.25%	8.25%	7.25%	3.25%	3.25%	3.25%
Apr 1	7.75%	9%	8%	4.75%	4.25%	4%	5.75%	7.75%	8.25%	5.25%	3.25%	3.25%	3.25%
July 1	8%	9.5%	6.75%	4.75%	4%	4.25%	6.25%	8.25%	8.25%	5%	3.25%	3.25%	3.25%
Oct 1	8.25%	9.5%	6%	4.75%	4%	4.75%	6.75%	8.25%	7.75%	5%	3.25%	3.25%	3.25%
Dec 1	8.5%	9.5%	5%	4.25%	4%	5%	7%	8.25%	7.5%	4%	3.25%	3.25%	3.25%

3. The Madoff Chill

In addition to the extreme downturns in the securities and real estate markets the press reported numerous incidences of investment manager fraud, the most significant of which was the Madoff Ponzi scheme with losses of more than $50 billion. In later 2008, an investment manager in New York, Bernard J. Madoff, revealed the $50 billion he had managed for individuals, foundations, corporations, and other investment managers was all a fraud. For decades, he had run a Ponzi scheme in which dollars from new investors were used to pay longer-term investors. The assets and returns shown on statements were all manufactured. When the dust began to settle (the final asset count is not yet complete), Madoff held only several hundred million rather than the $50 billion reported to customers.

One of the remarkable revelations about the Madoff fraud was the number of sophisticated investors and nonprofit organizations on the list of victims. Several foundations and nonprofit organizations were forced to close their doors because of the losses. The story added an extra layer of concern to the investment management process above and beyond the wildly fluctuating market.

4. Retirement Needs

The investment uncertainties come as more and more Americans are looking at retirement, but are finding themselves short.

- An increasing number of Americans are retiring, making them dependent on personal investments, retirement plans, and pensions for survival. There are 21.1 million men age 50 and older in the workforce (2005-2010); of those 4.5 million (21.3%) are projected to exit the workforce over that period. There are 18.1 million women in the workforce (2005-2010); 4.2 million (23.2% are projected to exit during that period.[4]

- "10 million people, including 1.3 million persons aged 55 and older, were unemployed in October. Unemployment rates rose for all age groups. For various reasons, including the fact that unemployed older workers often drop out of the labor force and are thus not counted as unemployed, the unemployment rate for older persons tends to be lower than that for younger people. This remained the case in October (Figure 1). The October unemployment rate for the aged 55 and older labor force stood at 4.5 percent. It was 5.5 percent for those aged 25–54 and 6.5 percent for the labor force as a whole."[5]

- According to a 2008 analysis of CPS data, "among both men and women aged 70 and older, rates of employment rose slightly between 1990 and 2008. In March 2008, 14% of men aged 70 and older were employed, compared with 10% in 1990. Among women aged 70 and older, 8% were employed in March 2008, compared with 5% in March 1990." (p. 5)[6]

5. What This Means for Donors

Economic pressures are causing donors to rethink retirement, rethink annual budgets, and rethink charitable giving as a part of those budgets.

- The current economic crisis is evoking memories of the Depression and causing donors to hold onto cash.

- The country is now in an acknowledged recession, with increasing unemployment, and major retailers closing or going into bankruptcy on a daily basis.

- Gas prices rose to over $4/gallon in 2008, and while average prices are now much lower, the fundamentals that drove the increase have not gone away and are driving inflationary fears.

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[4] Bureau of labor Statistics, 2008 analysis, Table 4, p. 46; Gendell, M. (2008). Older workers: Increasing their labor force participation and hours of work. Monthly Labor Review, 131(1), 41-54. Retrieved from http://www.bls.gov/opub/mlr/2008/01/art3full.pdf.

[5] Rix, Sara E, "The Employment Picture, October 2008—Mostly Grim News for Older and Younger Workers Research Report," AARP Public Policy Institute (November 2008), http://www.aarp.org/research/economy/trends/fs148_employment.html.

[6] Purcell, P. (2008). Older workers: Employment and retirement trends - September 15, 2008. Washington, DC: Congressional Research Service. Retrieved from http://opencrs.cdt.org/document/RL30629

- The federal debt load is at a historically high point and will undoubtedly increase significantly before the financial crisis is over.[7] States are also struggling to meet state budget goals (as are counties and municipalities).

These factors have not eliminated charitable giving, but simply changed charitable planning focus and strategy. This session is designed to address donor motivation, how to determine that motivation, and charitable planning opportunities representing the best options for charitably inclined donors.

B. The Value Added of Gift Planning in Major and Deferred Gifts

1. A Definition of "Gift Planning"

While "planned giving" has generally referred to deferred gifts in the past, "gift planning" is now the more accepted term and is applicable to both major and deferred gifts. The term is used to describe an engaged conversation with the donor – and generally the donor's advisors who may be called on to help the donor make the ultimate determination on form, timing, and asset – to explore and determine the gift's terms and purpose. This planning process requires an understanding of the donor and the donor's goals, and often a conversation with the donor.

2. Examples of Leveraged Planning

Effective planning enhances all types of charitable gifts. The process encompasses a simple concept such as using appreciated stock to make an annual contribution to our charity to one as complex as funding a charitable remainder trust with closely-held stock that is later redeemed. Gift planning allows the donor to choose the asset that best meets his needs, to use the gift form that best accomplishes her overall estate planning goals, to select the best timing for the gift, and to create a charitable gift that best meets the needs of the nonprofit. This process also allows your charity to form closer relationships with its donors and to develop large gifts for endowment or capital expenditures.

The real value of gift planning is having the ability to meet the donor where they are – on their terms, using available assets, maximizing their tax benefits, and combining their personal and charitable planning goals. Consider these five ideas that leverage planning.

Idea #1: Accelerating Charitable Gifts

Sometimes the simplest planning concepts generate the most profound results. After a year in which decedents died without tax (2010), Congress put in place a two-year estate and gift tax table that recouple the rates and exclusion amounts, allowing donors a $5 million exclusion and setting a top tax rate of 35%. Most estates will not be taxable. This means planners must review assumptions made about tax benefits of planned gifts in current estate plans and consider changing the timing – and the form – of those gifts to maximize taxpayer benefits. For example:

- *Accelerate a bequest under will (especially for non-taxable estates) to create a charitable gift annuity that pays income in retirement and creates an income tax deduction.*

- *Accelerate gifts destined for charity that generate no income.* Classic examples include life insurance policies owned by the donor designating charity as the beneficiary, or valuable art collections headed for a museum (especially if the donor is downsizing and is concerned about the ongoing cost of insuring and safeguarding the assets).

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[7] Congress recently negotiated a 700 trillion bailout of the economic crisis, which will create an even greater debt load, and will likely raise taxes and allocate even more to bailing out the economy and the country.

- *Accelerate a testamentary gift of a home or farm by making a retained life interest gift*. The donor may want to transfer the home to charity today, retaining the lifetime right to remain in the home, and take a charitable deduction for the remainder interest.

Idea #2: Use Double-Taxed Estate Assets to Make Charitable Gifts

Double-taxed estate assets are those subject to both income tax and estate tax at death (also called, Income in respect of a decedent or IRD). IRD assets – including IRAs, 403(b) plan assets, TIAA/CREF accounts, savings bonds, untaxed compensation, or any asset on which income tax is due at death – are often avoided by gift planners because of unpleasant tax consequences if transferred during life. In an estate, however, these assets can work magic when used to make charitable gifts.

Table 4 compares the result of an outright gift of a $250,000 retirement plan to family (for a $4,000,000 estate) and the gift of that retirement plan to a 5%, 20-year charitable remainder trust for family. The calculation assumes the gift was made in December 2011 (1.6% CFMR). The trust can then distribute income annually to the decedent's wife, or children.

TABLE 4
COMPARISON OF $250,000 RETIREMENT PLAN TRANSFERRED TO FAMILY AND TO 20-YEAR 5% CRUT (ASSUMING $4,000,000 ESTATE, 35% TAX BRACKET, 15% CAPITAL GAINS BRACKET)

	$250,000 Bequest of Retirement Plan to Family	*$250,000 Bequest of Retirement Plan to 5%, 20-Year CRUT*
Total Estate	$4,000,000	$4,000,000
Total Taxes on $250,000 Retirement Plan	$87,500	$0
Effective Tax Rate on Retirement Plan (federal taxes only)	35%	0%
Net Bequest	$162,500	$250,000
Net Savings vs. Bequest		$87,500

Idea #3: Use a Charitable Gift to Fund Retirement

Many retired individuals – or those planning for retirement – create charitable gift annuities to generate more income. In this example, Doug and Anita Jones, ages 70 and 71, used a maturing certificate of deposit to create a charitable gift annuity. The certificate of deposit had a renewal rate of 1.5% ($375); the charitable gift annuity provided a yield of 5.2% ($1,300). In addition, $291.20 of the charitable gift annuity payment is ordinary income, while the remaining $1,008.80 is tax-free return of income.

TABLE 5
CHARITABLE GIFT ANNUITY FOR COUPLE AGES 70, 71[8]

Contributed amount:	$25,000.00
Charitable deduction:	$ 4,716.25
Annuity amount:	$ 1,300.00
Tax-free payments:	$ 1,008.80
Ordinary income:	$ 291.20

[8] Calculations made in December 2011, 1.6% CFMR..

Idea #4: *Providing Support for Parents*

An increasing use of charitable remainder trusts and gift annuities is to fund needs of elderly parents. Increasing nursing home costs and health care costs often result in an unanticipated depletion of assets requiring that children fund the cost of lodging and care. Create a charitable remainder trust with an income stream to the parents. This allows a child to receive a charitable deduction for the gift and to provide a stream of income to a parent. Gift tax must be paid (or unified credit used) on the value of the income stream created for the parent. In this example, the children created a $100,000, 6.3% charitable gift annuity for the joint lives of parents, ages 78 and 82. This gift occurred in December, 2011, 1.6% CFMR. The results are shown in Table 6.

TABLE 6
$100,000 6.9% CHARITABLE GIFT ANNUITY FOR AGES 78 AND 82

Principal Amount	$100,000.00
Charitable Deduction	$ 34,135.00[9]
Annual Income to parents (6.1%)	$ 6,300.00
Tax-free portion	$ 5,103.00
Ordinary income portion	$ 1,197.00

II. Reports from the Field: What We Know About Donors

A. Bank of America's Study of High Net-Worth Philanthropy

Bank of America sponsored a 2006 study focusing on the philanthropic profile, motivations, and goals of high net-worth individuals. Surveys were sent to 30,000 high net-worth households, defined as those with incomes of more than $200,000 and/or assets exceeding $1 million. This high net-worth group represents 3.1% of all U. S households and is responsible for 2/3's of U.S. philanthropy.[10] Key findings from this research included the following:

- 98% of high net-worth households made a gift to charity in 2005.[11]

- The top motivations for charitable giving focused primarily on the impact and purpose of the gift. The top nine responses are listed in Table 7.[12] Factors that would motivate additional gifts are detailed in Table 8.[13]

[9] Because this is a gift from children to parent, gift tax is due. The gift (non-charitable) portion is $65,865.

[10] Bank of America Study of High Net-Worth Philanthropy, Initial Report, Center on Philanthropy at Indiana University (October 2006), http://newsroom.bankofamerica.com/index.php?s=press_kit&item=63.

[11] Id, p 5.

[12] Id., p. 6.

[13] Id., p. 7.

TABLE 7
IMPORTANT MOTIVATIONS FOR GIVING

Motivations	*% Citing Motivation*
Meeting critical needs	86.3%
Giving back to society	82.6%
Reciprocity	81.5%
Bring about a desired impact	68.5%
Believe nonprofits should provide services government cannot provide	64.4%
Being asked	62.4%
Set an example	62.1%
Identification with causes	62.1%
Religious beliefs	57%

TABLE 8
FACTORS THAT WOULD PROMPT ADDITIONAL GIFTS

Factor	*% Citing*
Charities spent less money on administration	74.8%
Donor was able to determine impact of his/her gift	58.3%
The donor felt more financially secure	52.7%
The donor received a better return on investments	46.6%
Donor was not already financially committed	40.2%
Knew of more nonprofits	36.3%
Able to use skills in nonprofits	36.1%
Understood goals of nonprofits	31.1%

- The survey group had created both current and deferred charitable gift vehicles as shown in Table 9.[14] (Note: this does not include outright gifts to charity annual appeals for operating funds.)

TABLE 9
TYPES OF CHARITABLE GIFT VEHICLES USED BY HIGH NET-WORTH DONORS

Type of Charitable Gift	*% Who Had Created This Type of Gift*
Contribution to major campaign	64.6%
Provision for charity in will	41.2%
Used stocks or mutual funds to make gift	31.8%
Created foundation	19.5%
Created donor advised fund	15.9%
Used stock of family-owned business to make gift	14.7%
Used non-financial, physical asset to make gift	12.3%
Created a split-interest trust (charitable remainder trust or charitable lead trust)	11.5%
Charity as beneficiary of IRA or retirement plan	10.2%
Charity as beneficiary of life insurance policy	5.7%

B. The 2008 High Net-Worth Update

Bank of America sponsored an update on the high net-worth donor survey that will be published in full in the first quarter of 2009.[15] Several important findings were reported in the Executive Summary of the report posted in early December 2008.[16]

- The three top reasons donors stopped giving to a specific charity included: 1) They “no longer feeling connected to the organization;” 2) they decided to support other causes; and 3) they were being solicited too often.

[14] Id., p. 7.

[15] Check the Center on Philanthropy’s website, Research, http://www.philanthropy.iupui.edu/Research/.

[16] http://www.philanthropy.iupui.edu/News/2008/pr-HNWPhilanthropy.aspx.

- In 2006, donors cited nonprofit personnel and peers as the top sources of gift planning advice; in 2008, donors cited professional advisors (accountants, attorneys, and financial wealth advisors) as the top three sources of advice.

- Donors cite the desire to "give back to the community" as the primary motivation for giving; public recognition was of little interest.

- Donors feel the gifts they make have a greater impact on them personally – personal fulfillment – than on the charitable recipients of those gifts.

- Setting an example for children is an important motivation in giving. Donors use family involvement in giving as a way to pass philanthropic values to the next generation; private foundations and donor advised funds often result.

- Parents are the leading source of philanthropic education; religious organizations are the second leading source.

- Donors expect transparency, accountability, and protection of privacy from the charities they support.

C. The 2010 High Net Worth Update

The 2010 identified some consistencies and some changes in giving:

- High net worth donors are still giving - 98.2% gave to charity in he prior year.
- Average giving dropped 34.9% between 2007 and 2009 from $83,034 to $54.016.
- Donors give when they believe their gift will make a difference (72.4%), when they feel financially secure (71.2%) and when they know the charity uses the donation efficiently (71%).
- The more they volunteered, the more they gave:
    - Non-volunteers $46,414/average
    - Volunteers between 101 and 200 hours, $48,860/average
    - Volunteers more than 200 hours, $75,662/average
- Professional advisors are increasingly important in making giving decisions - most frequent advisors:
    - Accountants (67.5%)
    - Attorneys (40.8%)
    - Financial/wealth advisors (38.8%)

D. Center on Philanthropy at Indiana University Bequest Study

In 2006, the Center on Philanthropy at Indiana University (CPIU) surveyed 2,279 respondents in Indiana, St. Louis, and Memphis, combining it with data from the October 2006 *Bank of America Study of High Net Worth Philanthropy* (the High Net Worth Study)[17] to identify factors that not only identify potential bequest donors but detail donor motivation. This study, *Bequest Donors: Demographics and Motivations of Potential and Actual Donors,"* (the Bequest Study) was published in March 2007. While both studies were conducted by CPIU, the Bequest Study focused on the general population and the High Net Worth survey focused on donors with assets greater than $1 million or income of $200,000 or greater.

- **Who Has a Will?**

[17] "Bank of America Study of High Net Worth Philanthropy," The Center on Philanthropy at Indiana University (Indianapolis, October 2006), www.bankofamerica.com.

Only 48.4% of those surveyed had a will. This is slightly higher than the 44.4% reported by FindLaw in its 2002 study[18] and the 42% reported in NCPG's 2000 Survey of Donors.[19] These figures are sobering reminders that most individuals do not have a will adding a significant challenge to the solicitation of bequest gifts.

- **Demographics of Individuals with Current Bequest Commitments**

Overall, 7.5% of the Bequest Study respondents reported a gift to charity under will, slightly lower than the 8% reported in the 2000 NCPG survey and substantially lower than the 41.2% found among the High Net Worth Study respondents. The biggest surprise was the age of the donors who had made bequest commitments. Individuals age 40-50 reported the highest frequency of bequest commitments (28.1%) followed by individuals age 50-60 (21.9%) and age 60-70 (20.6%). By comparison, only 11% of the 70-80-year-old group and 8.9% of the 80+-year-old group reported a bequest under will.

When the same question was put to the respondents in the High Net Worth Study group, individuals reporting bequests were more likely to be older, with the greatest concentration in the 50+ age group.[20] Both findings direct gift planners to younger donors than traditionally targeted by bequest programs which generally focus on donors age 65 and older. Results for the Bequest Study and the High Net Worth Study are reported and compared in Table 10.

TABLE 10
BEQUEST COMMITMENTS IN PLACE, BEQUEST STUDY AND HIGH NET WORTH PHILANTHROPY STUDY

	Bequest Study(March	*High Net Worth Philanthropy Study (October 2006)*
30-40	8.9%	1.4%
40-50	28.1%	9.4%
50-60	21.9%	19.3%
60-70	20.6%	27.5%
70-80	11.0%	25.1%
80+	8.9%	17.3%

- **Individuals Willing To Consider a Bequest Gift**

One of the greatest opportunities for charities is the large percentage of the survey group - 31% - who would be willing to consider a bequest. The largest concentrations of these potential bequest donors are ages 40-50 (28%) and 50-60 (24%), as shown in Table 11. The data again suggests bequest marketing and solicitation will be more effective when focused on younger donors.

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[18] "Most Americans Still Don't Have a Will," FindLaw (August 19, 2002), http://company.findlaw.com/pr/2002/081902.will.html.

[19] Planned Giving in the United States 2000: A Survey of Donors, National Committee on Planned Giving (Indianapolis: 2000), www.ncpg.org.

[20] Bank of America Study of High Net Worth Philanthropy, Initial Report, http://newsroom.bankofamerica.com/index.php?s=press_kit&item=63. This group, which comprises 3.1% of the population, is estimated give 2/3's of all household gifts in the United States.

TABLE 11
INDIVIDUALS WHO WOULD CONSIDER NAMING A CHARITY UNDER WILL

Age Band	*Bequest Study*	*Percentage of Sample*
30-40	18%	18.2%
40-50	28%	28.8%
50-60	24%	18.3%
60-70	5%	10.9%
70-80	3%	7.8%
80+	1%	3.7%

- **The Impact of Income Level on Bequest Giving**

Finally, the study analyzed the likelihood of a bequest inclusion or consideration of a bequest inclusion by income level. The researchers found bequest giving – and the potential for new bequests – was strong across all income levels reminding gift planners bequest giving is not exclusive to major gift donors and is not driven by taxes alone. Table 12 reflects incidences of bequest intentions, and the potential for bequest creation among five income levels.

TABLE 12
BEQUEST INTENTIONS AND POTENTIAL FOR BEQUESTS AMONG VARIOUS INCOME LEVELS[21]

	<$25,000	*$25,000 - $49,999*	*$50,000 - $74,999*	*$75,000 - $99,000*	*$100,000+*
Bequest in place	6.6%	7%	7.6%	6.5%	10%
Would consider bequest	28.4%	34.6%	28.8%	25.99%	35.63%

E. Boston College Social Welfare Institute Projections

In 1998, researchers at the Boston College Social Welfare Research Institute published a study projecting the intergenerational transfer of wealth expected to occur between 1998 and 2052.[22] That study estimates the transfer will range from a low of $41 trillion to a high of $136 trillion, figures substantially higher than the frequently used $10.4 trillion figure developed in the 1990's by Robert Avery and Michael Rendall of Cornell.

The researchers based the simulation model on certain assumptions that included a baseline for 1998 household wealth of $32 trillion; a rate of wealth growth ranging from 2% (low estimate) to 4% (high estimate) occurring at a steady rate (no recessions, no high growth years); and assumptions about certain age bands and rates of household savings, spending over savings, and growth in wealth.

Havens and Schervish further projected that charities will benefit heavily from this transfer in an amount ranging from a low of $6 trillion to a high of $25 trillion. These projections were based in large part on their findings in reviewing trends in estate tax returns.

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[21] Bequest Study, Figure 6.

[22] A summary of the study can be found at <www.bc.edu/bc_org/avp/gsas/swri/> in the article entitled "Millionaires and the Millennium: New Estimates of the Forthcoming Wealth Transfer and the Prospects for a Golden Age of Philanthropy."

In 2003, responding to concerns raised about economic changes that have occurred since 1998, Havens and Schervish published an updated commentary addressing the impact of slower economic growth, the bear markets of 2000-2003, longer life spans, the tendency to exhaust personal assets (leaving less to transfer) when life spans extend, and other issues impacting their earlier work.[23] They concluded that the $41 trillion estimate was valid and represented the low end of the potential transfer amount.[24]

III. How to Identify the Best Prospects

A. Avoiding the Pitfalls

The three biggest mistakes fundraisers can make in identifying major and planned gift prospects are these:

1) *Chasing the individuals with publicized high net-worth.* These individuals may be earmarked because "everyone knows" they are wealthy perhaps because they're on the front page of the paper as the largest stockholder in a local company, or come from a wealthy family. Having wealth does not predispose someone to giving that wealth to your charity. And if they are highly publicized, there is likely a long line around the block of individuals trying to get that money.

2) *Focusing all your attention on individuals who have made the "big gifts" to your charity.* First, your charity relies on this small, inner circle to make the big contributions. More and more often I'm finding donors who make a substantial contribution during life, may make a lesser contribution through their estate.

3) *Assuming donors who make small gifts are not capable of making larger or estate gifts.* Look at the history of bequest gifts received to date, and you will find many generous gifts from unexpected, smaller donors. These may be donors who would have made larger contributions during life if they had had a closer relationship with your charity.

B. Points of Contact

1. The Importance of the Connection

Donors have more than 1 million choices in charities they might support, without taking into consideration the 300,000 or more religious organizations that are not counted in that number. Donors narrow the field and give where they feel the most connected and have the greatest interest. Often, that interest is kindled as a result of participation or connection.

The closer they are connected to your charity, the more likely they are to be involved, to be donors, and to share the vision of the future. This connection can take many forms:

- *If you are a school, they may be alumni, they may return to campus, they may be on advisory boards, or attend events in cities where the school recruits.* These are powerful connections.

- *If you are a membership organization, these individuals may feel a sense of ownership.* Watch for a lack of philanthropic awareness that sometimes occurs with membership – individuals who

[23] Havens, John J. and Paul G. Schervish, "Why the $41 Trillion Wealth Transfer Estimate is Still Valid," Planned Giving Design Center (Gift Planner's Digest, January 27, 2003), <www.pgdc.net>.

[24] Id.

pay for services gauge their payments to the services they receives. However, you have the advantage that they are in constant contact with your charity and its services.

- *Organizations that provide community services also have many points of contact.* Consider hospitals, for example, that treat numbers of people in the community and create a sense of gratefulness that services exist and were available when needed.

- *Some social service organizations have none of these advantages – but greatly enhance the quality of life in the community.* Points of contact may come from volunteer experiences, or special events.

2. What Connecting Implies for Donors

Look at connection, and giving, as a partnership. Treat them as partners in your success. Share your success with them as investors.

C. Methods of Identifying Connections

Brainstorm about the ways your donors, alumni, parents, and others are connected to your charity or to your program. Use these factors. (Note, you need to be able to track these connections, and access the information, if you are to work effectively. If this isn't easy to do at present, get training on accessing the data system to make these queries.)

- *Multi-year givers*. Multi-year givers are gold at any giving threshhold. These are individuals who have been giving year over year, some at a $50 to $100 level while others at a $5,000 to $10,000 level. The fact that they give consistently means they are connected and believe in the work that you do. The higher level donors are almost always on someone's radar screen, but those giving at the $1,000 and lower level may not be. Multi-year giving is one of the strongest indicators of planned gift potential.

- *Boards and advisory boards.* Individuals who take the time and express the interest in serving in a volunteer capacity has a much higher interest and more knowledge of the impact of your charity on student lives and the communities they return to. Current board members are most connected, but do not overlook the opportunity to engage past board members who may have drifted away.

- *Volunteers.* Most charities have volunteers beyond those filling a fiduciary role on the board. You may have docents at the museum, class agents at the school, guild members who spend time with patients, or individuals who conduct tours at the zoo. These individuals get a first hand look at the impact your organization has on those they serve and are there because they believe in what you do.

- *Family members of donors, fundholders, or board members.* Reach out to family members of those involved, especially if they are philanthropically active in your community.

- *Participants in events.* Your charity likely has an ongoing stream of events that may attract interested donors and prospects. Individuals who attend these events have a greater than average interest in your charity.

- *Other indicators.* Look for other ways individuals may come into contact with your charity. You may have members, those who use your services, family members of those who use your services, or some other connection unique to your organization.

IV. Talking to Donors about Significant Gifts

The conversations about major and planned gifts are different in intent and timing. The major gift goal is immediate while the planned gift goal is deferred. They share one critical aspect in common – both are more successful if you have a relationship with the donor and are in conversation with the donor. This conversation is not driven by your goal or your charity's needs. Rather, the conversation is about the donor – the donor's charitable vision and charitable goals. It's about getting them to partner with your charity, commit to today's outcomes, and dream about the future.

A. Research Before You Go – Find Out Everything

Since the call is about the donor, research the donor before you go using your charity's records, paper files, Google, and research available through your research area (charities supported by the donor, assets, etc.). Your knowledge base should include:

1. Giving history
2. Capital campaign donor
3. Planned gift commitment (type, amount, purpose)
4. Volunteer relationship
5. Family history with your organization or your type of organization
6. Specific interests or personal goals
7. Information from public sources about the prospect's history, family and business
8. information about the prospect's philanthropic history

B. Use a Worksheet

You will have gaps in your knowledge of the donor whether it relates to volunteer roles they've filled at your charity, to date of birth, to information about the donor's family. To prepare for the call, create a worksheet with the questions you want to get answered so that you can remember them all.

C. The Purpose of the Call

There are some facts you must act to discover, and that is one of the key purposes of the visit and the way you build a relationship with the donor. This runs counter to the normal "sales" approach in which you open and close the conversation by telling the donor what you'd like them to contribute to, and why that is important to your charity. There's plenty of time to solicit, but you must first understand more about the donor's connection, interests, and potential motivation to give.

1. The Magic Questions

The following questions are comfortable, easy, and open-ended and designed to get the donor engaged in the conversation, make them comfortable, and to learn more about them personally.

1) *When did you make your first gift to this charity, and how did that happen?* This is a open ended question that helps you open the door to understand how your donor became engaged with your organization.

2) *Why do you support our charity?* What is it that we do that is most compelling and essential to you?

3) *What are your greatest charitable priorities now in the community? What makes those organizations you support your priorities?* Here you are trying to discover both their broad priorities (i.e., education, healthcare, arts, human services, etc.) but the specific

charities they invest in, and why they invest in those specific charities. Do those charities have the most effective programs, the broadest outreach, the most visible boards, or other strengths?

4) *What are our organization's greatest challenges over the next five to ten years?* Ask the donor to partner with you in looking at the future. What are the greatest concerns they have about the roadblocks or obstacles or increases in need you face in the future?

5) *Would you consider partnering with us, and with others with similar concerns, to address those challenges?* This is the closer and the way you take their greatest interests, and their concerns, and ask them to engage with you to address those goals.

2. Identifying Interests and Objectives

Once the donor has expressed an interest in a specific area, or concerns about possible hurdles or barriers to success, you then have the opportunity to share specific projects and funding opportunities that fit those goals. Knowing the donor has a specific interest in the area gives you a much stronger platform. And having projects that fit those specific donor interests allow you to match your objectives with the donors. Both of you are ready for the conversation at that point.

3. Leaving Behind an Interest Generator

Take bookmark-sized teasers you can leave behind that reflect an area of interest, or question, or opportunity raised in the conversation. These may include:[25]

- How to become a member of the charity's Legacy Society
- Ten ways to leave a legacy to the charity
- Three ways to create a gift that pays income in retirement
- Four ways to use your home to make a gift
- Six ways to structure a bequest
- Five ways to make a gift without writing a check

The front of the piece should have the information (relative to the top raised) and the reverse of the piece should have your contact information. The goal is to plant an idea that will give you an opportunity to follow up.

D. The Most Important Thing to Remember

The most important thing to remember when making these calls and having these conversations is this: If you have selected your prospective donors carefully, you are not trying to get unwilling individuals to do something they do not want to do; you are talking with community investors about how to maximize the value of their giving and achieve their charitable visions. You are not talking to strangers, even if you have never met the individual before; you are talking to friends who have common interests and goals aligned with yours.

If you remember these operating guidelines, it will make your conversations much easier and you will more likely achieve your goals.

[25] See Appendix A for examples.

V. Listening for Opportunities

While all boards would prefer current cash to long-term commitments, it is difficult to get donors to part with cash in this environment because of conflicting personal needs. As we all know, planned gifts take longer to materialize than outright cash gifts. There is often less perception of urgency, and the idea may percolate for a while before taking root. Let the donor guide the timing of the gift. If you have prompts such as the bookmark-size pieces mentioned earlier, you will be able to keep the conversation going for a longer period. And, you may find opportunities for current gifts.

Here are some common comments and push backs you may hear during a conversation.

A. The Donor is Tight on Cash

1. What You Might Hear

- My CD income has been cut dramatically. I'd like to make a gift, but I don't have the resources.

- I've got 3 children in college. My cash flow just doesn't allow me to make a gift at this time.

- I'm holding cash, waiting to get back into the investment market. I can't really make a significant gift until I've taken care of my personal investments.

2. What You Might Leave Behind:[26] "Make a Gift with Non-Cash Assets" "Make a Gift Without Writing a Check"

Sometimes writing a check is not the most cost-effective way to make a gift. When making a gift, always consider all your options. Look for assets that may have long-term capital gain (allowing you to receive a charitable deduction and avoid capital gain on the gift asset), are no longer used (a collection, a vacation home), or generate expenses (real estate, art requiring storage and insurance). Common non-cash options include the following:

- Publicly traded stock
- Non-publicly traded stock (family business, local bank, and similar interests)
- Real estate
- Tangible personal property (cars, boats, antique furniture, equipment)
- Valuable art, jewelry, coin, or other collections
- Life insurance policy
- Patents, royalties, and other intellectual property interests

B. The Benefits of Gifts of Appreciated Assets

1. What You Might Hear

- I don't itemize my deductions, so I don't get a charitable income tax deduction.

- I have stock I've owned for over 30 years. It's doubled many times over the years.

- I have appreciated stock, but I hate to sell it and pay the capital gains tax, even with the lower 15 percent rates.

[26] See Appendix A for samples.

2. **What You Might Leave Behind:**
"Using Publicly Traded Stock to Make a Gift"
"Using Your Home to Make a Gift"

Gifts of appreciated assets generate two tax benefits: the donor receives a charitable income tax deduction for the market value of the gift, and avoids the capital gain on the asset's appreciation. One of the most common appreciated asset gifts is publicly traded stock. Here are five ways to use that stock to make an impact.

i. Make an outright gift of shares of stock to our charity.
ii. Make a gift of stock to our charity in exchange for a charitable gift annuity paying you a fixed annuity for life.
iii. Make a gift of stock to a charitable remainder annuity trust (paying you a fixed amount of income) or charitable remainder unitrust (paying you a variable amount of income) with the remainder to our charity.
iv. Make an outright gift of specific shares of stock to our charity under your will.

C. They'd Like to Make a Gift, But They Need Income

1. **What You'll Hear**

- I'd like to make a gift, but I'm worried about taking care of my parents.
- I'd like to make a gift, but I've got to put children through college. Financially, that's very challenging.
- I'd like to make a gift, but our assets were eroded in the stock market. I'm concerned we won't have enough income in retirement.
- I'm selling my business in the next year. Let me talk to you after I've finished that process and know what I can do.
- I just received a farm from my parent's estate. I probably need to sell or dispose of that in some way. Let me get back to you when I have some time (or when I sell the property).

2. **What You Might Leave Behind:**
"Create a Gift That Pays Income"

- *Charitable gift annuities* – make a gift and receive an income for life. These gifts can provide income to one or two persons. Rates are determined by the annuitants' ages at the date of the gift.
- *Charitable remainder trusts* – make a gift and receive a fixed annuity, or a fixed percentage of the trust assets, for life. These gifts can benefit one or more individuals. Rates are determined by the donor within broad guidelines established by the IRS. (Again, perhaps a term trust making payments to a child is an option for parents.)

D. Making a Future Gift

1. What You Might Hear

- I would love to create an endowment to honor my sister, but I might need the assets in retirement.
- My retirement plan has grown faster than I've been able to withdraw annual distributions! It will make a great gift for my children.
- I'm worried about taking care of my parents in the event something happened to me during their lives.
- My parents are the current beneficiaries of my life insurance policies.

**2. What You Might Leave Behind:
"Impact the Next Generation Through Your Will"**

- *Bequest* – A bequest allows you to make a gift through your estate, but retain the assets (and the income from those assets) during your life. Through a bequest, any donor can make a significant impact on our charity and its programs.
- *Beneficiary Designation of Life Insurance* – Name our charity as your primary or secondary insurance beneficiary. This is an easy way to make a gift, allowing you use of the policy's cash value during life, if needed, and leaving a significant gift to the University.
- *Beneficiary Designation of Retirement Plan* – Name our charity as the primary or secondary beneficiary of your retirement plan. Retirement plans are subject to two taxes at death – estate taxes and income taxes. This is the most cost effective way to make a deferred gift to the University, allowing you to pass less taxed assets to family members and heirs.

E. The Donor Needs to Engage in Planning

1. What You Might Hear

- I've got a will. My wife and I both executed wills when the children were born.
- Our company attorney drafted a will for me several years ago. He said it was best to keep things simple.
- I asked my real estate attorney about a will, but he told me planning was complicated. He couldn't help me, but I really didn't have anyone else to turn to.
- I don't need an estate plan. My wife and I own everything jointly with right of survivorship.

- I understand it costs a lot to get a will. I'll go on line and see if I can find a simple form when I have a chance.

2. What You Might Leave: A Planning Checklist
"Impact the Next generation Through Your Will"

Planning is a continuous process. The donor should review his plans on at least an annual basis, or when important changes occur. Consider a few of the most common change scenarios. These signal the need for the donor to engage in planning, and may also signal gift opportunities.

✓ Change in Assets

- Purchase of a major asset
- Sale of a major asset
- Loss of significant amounts in asset value in the financial markets
- Gained significant amounts in asset value in the financial markets
- Inherited assets
- Sale of family business

✓ Change in Income Level

- Got a new job
- Lost a job (or two jobs in double income families)
- Interest rates (and your income) decline significantly
- Interest rates (and your income) increase significantly
- Illness, disability causes increase in expenses

✓ Change in Work Status

- Key wage earner retires
- Key wage earner is disabled
- Job change

✓ Change in Family Status

- Marriage
- Divorce
- Children born
- Child marries
- Child disabled
- Grandchildren born
- Death of immediate family member

F. A Gift of Retirement Assets

1. What You Might Hear

- I'm saving my retirement plan for my children. It's grown so fast it's hard to believe.

- To be honest, my largest asset is my retirement plan. Of course, that passes to my wife at my death so she'll have the income.

- It doesn't look like I'll pay any estate taxes at death. I'll leave something for your charity under my will, but I'll need to take care of my family first.

2. What You Might Leave: How to Use Your Retirement Plan to Make a Gift

Retirement plan assets make great gifts for charity because they are subject to two taxes: estate tax and income tax. If you plan to make a gift to our charity through your estate plan, you may want to consider using retirement assets (highly taxed) and leaving other estate assets to family. Consider these easy ways to use your retirement plan to make a gift.

- Name our charity as the beneficiary of all or a portion of your IRA or qualified retirement plan.

- Name our charity as the beneficiary of all or a portion of your IRA to create charitable gift annuity for spouse or family member.

- Create a charitable remainder trust benefiting spouse or family members and name that trust as the beneficiary of all or a portion of retirement proceeds.

G. Other Opportunities – Major Financial Events

Identify and nurture the donor's vision, but understand that "today" may not be the right time to execute the plan. However, remind the donor there will be opportunities and to come talk with you (or their advisor) to maximize those opportunities. These include:

- Selling a business
- Reducing concentrations in a stock portfolio
- Selling a home
- Retiring and converting assets
- Receiving an inheritance

H. Push Backs Due to the Economy

"The economy is so uncertain right now – I'm not making any decisions or distributions until things stabilize."

Your responses:

- This is an extremely difficult time for many families at all income levels – we've seen a significant increase in the demand for financial support, research dollars, recruitment funds, etc. (get some statistics).

- Your gift could not have any greater impact than this year when the need is so great.

"All my stocks have losses. I'm worried about having enough income in retirement."

Your responses:

- You may want to talk to your financial advisor about selling some stocks with losses to offset any gains you've taken earlier this year.

- Have you considered making your gift by creating a charitable gift annuity that pays you a fixed annuity stream based on your age for life (or for you and your spouse for life), generates a charitable income tax deduction for the portion representing the charitable benefit, and creates a significant gift for our charity. I'll be happy to run an illustration of the annuity stream and benefits for you.

"I don't have any stocks with gains anymore. I'm worried about where the market is going – I don't feel I can really afford to make a gift."

Your responses:

- Even though your stocks have lost much of the gain they may have once have, there is still a great advantage to you to use long-term appreciated stock to do your giving because you not only receive a charitable deduction for the market value of the gift, but you also avoid capital gains on the long-term appreciation.

- You can then repurchase the stock at that market value and limit tax on future gains (over the original purchase price).

"I'm worried about taking care of my parents – I can't really make any major financial distributions until I'm sure they're alright.

Your responses:

- You're not imagining that life expectancy is increasing – which is a good thing when it involves our parents. But that does mean that people – including our parents – may be outliving their resources.

- Rather than reverse estate planning – transferring assets to parents – consider creating a charitable gift annuity for their benefit to supplement income.

- The arrangement has several benefits:

    - It provides you with a charitable income tax deduction for the charitable portion of the gift.
    - It generates a stream of revenue for your parents – much of which is tax-free.
    - The assets themselves are protected from creditors because they're given to our charity, which issues the gift annuity.

I. Overcoming Deferred Gift Objections

"My children are my primary beneficiaries – we've left everything to them."

Your responses:

- Most individuals prioritize family in their wills or estate planning and have specific goals for what they'd like their family members to receive.

- Only after they've met specific goals for individual family members do they consider including charities they've supported during their lives or other individuals.

- Some individuals who have made regular gifts to charities during their lives allocate a percentage of their estates to charity – such as 5% or 10% - so that the amount moves up or down with the size of the estate. For example, a 5% distribution to charity from an estate where there are three children would reduce each child's share by only 1.66%.

You ask the donor whether they've included your charity in their will or estate plan, and they respond by saying they don't think that's possible. What comes next?

Your responses:

- Then I'm glad we have the opportunity to talk. The reason I raised the issue is because you have been such a committed donor and have made such an impact on lives in the community. Because of this commitment, I'd like to ask you to consider including our charity as a bequest beneficiary, or perhaps beneficiary of your IRA – which is even easier.

- Your gift will have a significant, ongoing impact on the families and children served by your charity, and enable us to continue to build the resources available to the greater Waco/(their town) community.

- Many of those who are members of our Legacy Society have commitments similar to yours.

- We have an individual on staff who specializes in gift planning – I would be glad to arrange a time for you to sit down with ____ to discuss your personal goals – one of her/his specialties is maximizing the value of the gift to our charity and to your family through planning.

"I've included my synagogue and (favorite charity) under my will, but I didn't know you needed a bequest gift."

Your responses:

- Then I'm glad I raised the question. You have been such an important donor to your charity – and have already impact many, many lives.

- A gift through your estate will have an ongoing impact, not only to meet needs in economies such as the current one, but also to fund new programs and projects that will improve lives.

VIII. Steps Following the Call

A. Before You Leave the Call, Look Ahead

Before you leave the call, think about how you will follow up. For example:

- The donor may have expressed an interest in a particular program or project. You can follow up by sending more information.
- You may have discussed trends or outcomes. Offer to do some research and provide the donor with the facts.
- The donor may have asked about a favorite professor. Check and get back with the donor with contact information or an update.
- The donor may have indicated now was not a good time – he is getting ready to take a trip – but would be willing to talk on return. Be sure to send the donor a note you will follow up in ___ months, and set a tickler or calendar item to reminder you to call.
- You may have discussed estate planning and offered to send the donor some worksheets or tools.
- The donor may have asked that you provide him with two or three names of recommended attorneys. Be sure to follow up.

B. Setting the Pace

Be sensitive to the donor's response to your visit and inquiries. You'll need to make some subjective decisions (unless the donor has removed the subjectivity by giving you clear instructions…..)

- Determine how actively you need to pursue the donor. Some will take several years of slow cultivation. Others have a clear, present interest and may need to be put on a fast track.
- Determine how focused the donor is, and how clear his or her charitable vision for your charity might be. Is the donor still working through options? Or does he or she have a clear charitable interest?
- Are there other factors that may affect the gift planning pipeline? Are the donor's assets primarily in real estate, a depressed market? Does the donor have other financial commitments at present, and if so, when will those be resolved?

C. Maintaining the Conversation

The key to cultivation is patience. Stay in touch actively by making follow up visits, using the telephone, and contacting the donor through letters and e-mails. Stay in touch passively by using newsletters, invitations to events, and electronic newsletters.

D. After the Visit

Record the results and details of your visit in the database so those notes are clear and available for other gift officers and volunteers.

- Keep notes and record what you've learned on the donor data system.

- If you planted an idea for a planned gift, record that as well and share the results with the planned gift staff.

- Identify a reason to follow-up with the donor. (Identify the opportunity during the call.) It may be an article, news release, upcoming event, lunch with a department head in the donor's field of interest, or tour of a building. Also look for ways the donor might get involved as a volunteer in his field of interest. It may be as advisory board member or as a committee member for a special event.

E. Keeping Track of the Results

Tracking results is the only way to evaluate the effectiveness of your calls. Measure the following:

1. The number of calls on which you had an opportunity to introduce a planned gift idea.
2. The number of follow-up contacts made with the donor – in person, by phone, and by mail (electronic or regular)
3. The number of planned gift commitments that resulted from your suggestion.
4. The consistency and size of the donor's major gift in the years following the planned gift commitment.

F. Evaluating the Effectiveness of the Call

Finally, evaluate the effectiveness of the call. What you learn may help in identifying future prospects, preparing calls, and moving calls to the next level. Think about the following:

- Was the prospect qualified? That is, was the donor a viable, interested, donor engaged with your charity?

- Had the prospect been stewarded well before the call, or was the call your charity's first visit with the donor? (This may create a case for stronger stewardship policies.)

- Was the donor expecting your visit? That is, did you do a good job of setting up the call and preparing the donor for the purpose of your visit?

- Did you learn anything new on the call? Did you learn what you needed to know? Were you successful in identifying more details about the donor and the donor's interests in the call?

- Would the call have been better if you had met in a different location? If you had met with additional family members? If you had met at a different time of day? For other reasons?

IX. For Professional Advisors: Philanthropic Conversations with Clients

Planned gifts have assumed greater relevance in the current economic environment. Donors – especially those with strong charitable intent –want to continue giving but are reluctant to give up current assets. Alternative giving options, such as bequests, beneficiary designations, and all forms of life income gifts, are a welcome solution. Therefore, planned gifts are assuming more prominence in comprehensive campaigns and ongoing giving programs.

A. Include Gift Planning as an Element of the Personal Planning Discussion

The most successful gift planners (charities and professionals) use planned gifts as a tool to achieve charitable goals, rather than as an independent planning discipline. Gift planning expands donor options, and can work for every charity with the discipline and preparedness to handle the gifts.

B. Work With Clients to Identify Personal Goals

Motivation refers to the reasons a donor makes a gift; objectives refer to the results the donor wants to achieve in making a gift. A discussion of the gift's quantifiable results is often easier since it deals with objectives factors rather than the intangible feelings behind the gift. Sometimes objectives in making a gift are easy to articulate. Consider the following examples.

EXAMPLE 1: Oseola McCarty was an African-American sixth-grade dropout from Mississippi who made a living as a laundress. She lived frugally, saved her earnings, and made a $150,000 gift to the University of Southern Mississippi to establish a scholarship fund to enable other African-American women without resources to attend college.

EXAMPLE 2: Bill Gates, one of the world's richest men, has contributed over $21 billion to a family foundation. Among his multiple objectives were the eradication of polio in the world and the improvement of public education quality in the United States.

EXAMPLE 3: Walter Annenberg, one of the world's top philanthropists before his death in 2002, gave away in excess of $1 billion during his lifetime.[27] He gave because: "Giving is a mark of citizenship."[28] His objective in giving, which focused on institutions of higher education, was to improve the quality of and access to higher education in the United States.

These stories illustrate generosity in giving, as well as a focus on giving. One of the advisor's greatest challenges is to integrate the specific goals of the donor in a gift arrangement that is flexible enough to meet the needs of charity and stand the test of time. This ongoing conflict between the goals of the donor and the needs of charity is beneficial in encouraging dialogue about the structure of the gift. If, after discussion, the charity has no interest in the gift as restricted or designed, the advisor should either counsel the donor to modify the gift of help the donor identify a charity with that specific need.

In addition, the donor may have personal goals and objectives in making a gift. He may want to achieve a tax deduction for the gift. Since the deduction will depend on the form of the property contributed, the form of the gift created, and the donor's adjusted gross income, the advisor must determine whether that goal is achievable. On the other hand, the donor may want to generate additional income in retirement from a gift.

Wealthy donors may have more complex planning goals. A survey, conduct by Paul G. Schervish and John J. Havens at Boston College, found that the very wealthy have a strong interest in controlling the timing, direction, and level of giving to charitable organizations. Therefore, much of their giving (63 percent) is directed through donor-advised funds, trusts and family foundations.[29] Researchers felt this

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[27] Ann Marsh, They Don't Expect To Take It With Them, Forbes 400, at 130 (Oct. 13, 1997).

[28] *Id.*

[29] Schervish, Paul G. and John J. Havens, The Mind of the Millionaire: Findings from a National Survey on Wealth with Responsibility, in New Directions in Philanthropic Fundraising, Understanding Donor Dynamics: The Organizational Side of Charitable Giving, edited by Eugene R. Tempel, No. 32 (Summer 2001), pp. 75-107 (a copy of the paper is available at www.bc.edu/bc_org/avp/gsas/swri/swri_features_recent_papers.htm.

pattern indicated a realization that financial needs and charitable interests change over time and that their charitable giving mechanisms must be able to respond to these variances.

1. Tax and Financial Incentives in Planning

While the tax benefits are not generally the primary motivation for a gift, they do provide a tangible bonus for those who contribute to charity. It is difficult to establish general rules concerning the value of tax incentives to an individual donor since results will vary depending on the gift, the donor, and the following factors:

- *The charitable deduction depends in part on the form of property contributed* (cash securities, real estate, tangible personal property), the donor's basis in that property (short-term loss, long-term loss, even, short-term gain, long-term gain), *the type of gift made* (current outright gift, current split-interest gift), *and the donor's adjusted gross income* (to determine the 20 percent, 30 percent and 50 percent limits for the charitable deduction in the year).

- *Some gifts avoid income tax on capital gains on contributions, while others simply defer the gain.* Often, the result depends on the facts rather than the form of the gift. For example, capital gains on appreciated property contributed to a charitable remainder trust are not taxed because the trust is non-taxable (However, this income becomes part of the trust's accounting records and may eventually be distributed to the trust beneficiary as a part of the annual distribution stream and therefore subject to tax.) Contribution of appreciated long-term capital gain property to charity in exchange for a charitable gift annuity is treated as a bargain sale so long as the interest is non-assignable; the gain attributable to the donor's share of the gift (the present value of the annuity stream) is deferred and distributed over the expected life of the donor.[30] Contribution of long-term capital gain property to charity in exchange for a gift annuity for the benefit of someone other than the donor is taxed to the donor in the year of the gift.[31]

- *Many gifts made currently create multiple tax deductions, such as an income tax deduction, and a gift tax or estate tax deduction*. For example, a gift of a retirement plan to charity through beneficiary designation may avoid both income and estate tax on the gift. A grantor lead trust creates an income tax deduction for the donor, while a non-grantor lead trust creates estate and gift tax (but no income tax) deductions for the donor. The planner must be careful to explore all ramifications of the gift and explain the benefits to the donor.

- *The value of a charitable gift made through an estate is easier to calculate since the gift generates a dollar for dollar deduction for the charitable portion of the gift.* However, life income gifts, such as a charitable remainder trust created for a child, are not fully excluded from estate taxes since the portion representing the income interest for the children will be included in the estate. In addition, donors with non-taxable estates receive no benefit from the charitable deduction.

2. A Checklist for Goal Setting

Many clients have difficulty establishing goals for planning. Use the worksheet at Appendix A to lead them through the process of setting goals and prioritizing those goals. Common planning goals may include:

- Providing for sufficient assets for spouse and family and addressing special needs.

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[30] Reg. §1.1011-2(a)(4)(ii).

[31] Reg. 1.1011-2(a)(4)(i).

- Providing for children. This requires a discussion of the amount or nature of the property to be left to the child, and the form of the gift. The client should review whether the child is capable of financial asset management or if an advisor or trustee should be appointed.

- Providing for grandchildren. This also requires a discussion of how much and in what fashion. Can they handle financial asset management? Would a professional trustee be of benefit?

- Providing for special educational, rehabilitation, medical or remedial provisions that should be made for one or more dependents.

- Providing for the care of extended family members. Do you have any special concerns or needs that should be addressed in providing for your parents? Are there any other extended family members (or siblings?) that require special help?

- Creating a way to maintain control or allow for flexibility. How important is the ability to provide direction and meet needs?

- Establishing family values and philanthropic goals that are important.

- Support specific charities that the client has supported during his or her lifetime.

The worksheet allows the client to accomplish several goals. First, he is able to articulate priorities in planning. Second, he is prompted to quantify the costs of meeting those goals. For example, many individuals have not thought about the cost of providing for long-term health care, or providing a college education, or even the amount that they want to leave their children after death. The goal-setting process allows donors who have not quantified those goals to take the next step to talk with a financial planner, a CPA, or other professional that can help assign a dollar amount to a priority goal. Finally, he is able to take action to achieve goals, or make alternate plans if the goals cannot be met.

3. Helping the Client Discuss Charitable Objectives

Many professionals are not comfortable raising the issue of charitable giving. These questions are designed to make that process easier. These questions may be incorporate into an intake questionnaire to identify charitable objectives.

- *Do you have charitable organizations that you currently support on an annual basis?*

- *Do you want to include a gift to any of these organizations or other charitable organizations as a part of your estate plan?*

- *If there were a way to make a gift to charity largely out of federal estate tax dollars, would you be interested in exploring options to accomplish that goal?*

If you want to explore the client's charitable planning goals and objectives in more detail, ask these questions.[32]

- *What are your values? What have been the principles that have guided how you have lived your lives, raised your family run your business?*

- *What charitable interests have you pursued as an outgrowth of your values?*

[32] Breiteneicher, Joe, "Advisor's Enthusiasm Helps To Shape Client's Charitable Role," *Trusts & Estates* (August, 1996), p. 32.

- *What have you learned from your giving? What would you do differently? Would you feel confident expanding your giving?*

- *What has been the most satisfying charitable gift that you have made? Why?*

- *How do you view your wealth in connection to your community, to society?*

- *What role has philanthropy played in your family? What role should philanthropy play? What value would it bring to your children and grandchildren?*

- *What core values would you like to express through your giving? What do you want to stand for?*

- *When they think about the challenges facing your community, what are your major concerns?*

- *Are any of these or should any of these concerns be the focus of your giving?*

- *What would you like to accomplish with your giving? What do you think is possible?"*

The key is to ask the questions to allow the client to express charitable giving in terms of a priority. If you raise the issue and the client is not interested, move on. If you raise the issue and the client does express an interest, then there is an opportunity to integrate charitable giving in the overall estate plan.

4. Encourage Ongoing Review

Planning is a continuous process. The donor should review his plans on at least an annual basis, or when important changes occur. Consider a few of the most common change scenarios.

✓ **Change in Assets**

- Purchase of a major asset
- Sale of a major asset
- Loss of significant amounts in asset value in the financial markets
- Gained significant amounts in asset value in the financial markets
- Inherited assets

✓ **Change in Income Level**

- Got a new job
- Lost a job (or two jobs in double income families)
- Interest rates (and your income) decline significantly
- Interest rates (and your income) increase significantly
- Illness, disability causes increase in expenses

✓ **Change in Work Status**

- Key wage earner retires
- Key wage earner is disabled
- Job change

✓ **Change in Family Status**

- Marriage

- Divorce
- Children born
- Child marries
- Child disabled
- Grandchildren born
- Death of immediate family member

X. Final Thoughts

1. The key to getting a planned gift commitment is building a relationship with a donor and asking him/her to consider a planned gift. In making the solicitation, you'll learn the story. The story will provide you better insight and understanding of the donor's giving goals and philosophy.

2. Your primary role is personal – not technical. Ask the questions, learn the priorities, raise the issues, and then bring in the experts.

3. If you don't know the answer, say so. Tell the donor you'd rather get it right than answer too quickly.

4. Work as a team with others in your organization. You'll build stronger relationships with donors, and create a larger number of connections to your charity.

APPENDIX A
QUICK TOOLS FOR DONOR CALLS

Idea #1
MAKE A GIFT WITH NON-CASH ASSETS

Sometimes the best asset to use to make a gift is not cash. Consider these non-cash options:

- Publicly traded stock
- Mutual funds
- Privately traded (closely-held) stock
- Paid-up life insurance
- Collectibles (e.g., coin collections, jewelry, art, boars, cars, antiques, other personal property)
- Real estate (e.g., residence, vacation home, rental property, farm land, undeveloped property, commercial property)
- Timber
- Oil and gas interest
- Intellectual property (e.g., patents, trademarks, royalties, copyrights)
- IRA rollovers (for those age 70 ½)

Idea #2
MAKE A GIFT WITHOUT WRITING A CHECK

- Make a gift of long-term, publicly traded stock that has appreciated to our charity and receive two tax benefits: charitable income tax deduction and avoidance of capital gains tax.

- Make a gift of publicly traded stock in exchange for a charitable gift annuity which pays you income for life.

- Make a gift of your private company stock to a charitable remainder trust that will produce income for you.

- Gift a gift of a paid-up insurance policy.

- Make an outright gift of real estate (e.g., your home, a vacation home, undeveloped property).

- Convert your home, vacation home, or undeveloped real estate into a gift and annual stream of income using a charitable remainder trust.

- Downsizing? Donate your collectibles – art, stamp collections, or other valuables.

- If you are age 70 ½ or older, transfer a portion of your IRA ($100,00 maximum) to your charity in lieu of, or in addition to, your required minimum distribution.

Idea #3
CREATE A GIFT THAT PAYS YOU INCOME

- Create a charitable gift annuity for yourself, you and your spouse, or any combination of two individuals.

- Create a charitable gift annuity for an elderly parent to provide supplemental income for life's essentials.

- Create a charitable remainder trust for yourself, your spouse, or any combination of beneficiaries.

- Create a charitable remainder trust that takes care of a disabled family member with special needs.

- Sell your home to our charity for a portion of its value (bargain sale) and use the gift portion to create a charitable gift annuity.

- Fund a charitable remainder trust with a portion of your private company stock prior to the company's sale (must be completed prior to a legal obligation to sell), avoiding capital gains on the contributed stock and creating an income for you and/or other family members.

Idea #4
USE PUBLICLY TRADED STOCK TO MAKE A GIFT

Advantages of Giving Stock

Long-term (held more than one year) publicly traded stock that has increased in value over time can be subject to capital gains tax. Donating this stock to your charity can help you reduce this tax while making a significant gift to support your charity's mission for students.

- Make an outright gift of shares of stock as part of your annual gift.
- Gift a gift of shares of stock to create an endowment.
- Make a gift of stock in exchange for a charitable gift annuity, which pays you fixed income for life.
- Make a gift of stock to a charitable remainder annuity trust (which pays you a fixed amount of income) or charitable remainder unitrust (which pays you a variable amount of income).
- Make an outright gift of specific shares of stock in your will.

Idea #5
IMPACT THE NEXT GENERATION THROUGH YOUR WILL

- Create your own legacy – make a bequest gift of a specific amount to our charity in your will.
- Make a bequest of a percentage of your estate – after taking care of family.
- Create an endowed fund in your family's name through your will.
- Name our charity as beneficiary of all or a portion of your retirement plan.
- Name our charity as beneficiary of all or a portion of your life insurance policy.
- Leave a specific asset – such as land, a second home, or publicly traded company stock – to our charity under your will.
- Create a charitable remainder trust to provide income for your spouse or loved ones with the remainder going to our charity.
- Create a charitable gift annuity for life income while making a significant gift to our charity.

ON THE BACK

These ideas represent some of the options our gift officers can share with you. Contact our team for more information about how you can create a gift that has a significant impact on students and many benefits for you.

Name: ____

Phone: ____________________________ E-mail: ____________________________

This information is general in nature and is not intended as legal or professional advice. Please consult your attorney, accountant or other professional advisor regarding your personal circumstances.

APPENDIX B
INDIVIDUAL GOAL SETTING WORKSHEET

Setting goals for care of family and distribution of funds is important. Use this chart to list your goals, and indicate the dollar figure required to fund those goals.

Priority	*Goal*	*$$ Required*
	Provide for personal lifestyle.	$
	Provide for family care and lifestyle.	$
	Provide for assets for children. Note: determine if that gift should be outright or in trust.	$
	Provide for assets for grandchildren.	$
	Provide for elderly parents or family.	$
	Provide for family members with disabilities or other special medical needs.	$
	Provide for charities supported during life.	$
	Provide for the U. S. Government's programs and activities through a gift to the Internal Revenue Service.	$
	Other	$
		$
		$
		$
	TOTAL:	