BLENDED GIFTS AND COLLEGIAL COLLABORATION

PG CALC WEBINAR

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I. Introduction

The pressure on every development office to raise now money presents a roadblock to collaboration with deferred giving colleagues. Development leadership is laser focused on raising money for current use. The single most important metric is how much has been raised against this year's goal and how does this year's attainment compare to last year.

Realized planned gifts provide current use revenue. Nonetheless, even for highly productive planned gift programs, realized planned gifts represent a fraction of total fundraising. Add to this the cyclical nature of realized planned gifts. You cannot control or even predict who is going to die or how much revenue these realized planned gifts will yield. Short of calling in the Bequest Advancement Team, planned gift cash flow experiences material swings from year to year.

This webinar first focuses on building institutional buy-in for collaborating with principal, major, and annual gift fundraisers. A key component to building this collaboration is to demonstrate that putting the planned gift on the table does not reduce a donor's giving. Academic research supports the conclusion that the opposite occurs. Outright giving increases once a donor has completed a planned gift. The giving decision is not an either/or proposition. A planned gift deepens the relationship to the charity and increases the donor's propensity to make lifetime gifts. The planned gift does not reduce a donor's outright gifts and vice versa.

The second part of this webinar focuses on examples of blended gifts in practice. Using a variety of fact patterns, these case studies provide a toolbox of blended giving techniques. These techniques allow donors to make larger gifts than they might have ever thought possible. Some of the planned gift vehicles are the familiar vehicles known to the planned giving practitioner. Some of these examples combine the customary planned giving vehicles with creative outright gift ideas. Other examples demonstrate using less common ways of structuring planned gifts to maximize donor potential.

Blended gifts can allow donors to achieve multiple objectives. Donors want to provide for family and other loved ones, make tax-smart gifts, and arrange their affairs to provide for their own needs and support their favored charities.

II. Building Buy-in for Outright and Planned Giving Collaboration

An either/or approach to planned and outright giving treats philanthropy as a zero-sum game. Every outright dollar of giving reduces the dollar of expected planned gifts and vice versa. Such is not the case. Consider the donor holistically. The three traditional revenue streams from individuals are the annual fund, major outright gifts, and planned gifts. A collaborative fundraising approach focuses on enhancing all three streams of philanthropic giving.

Staffing planned giving runs the gamut from a single person wearing many hats besides planned giving to charities with dozens of planned giving specialists. The challenge of building collaboration is the same regardless of the size of the organization. Increase the visibility of how realized planned gifts add to the bottom line. Look for opportunities in staff meetings, fundraising attainment reports, annual reports, and in one-on-one opportunities with colleagues to report on planned giving successes.

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Realized planned gifts typically account for a modest percentage of total philanthropic support, no matter the size of the organization. Collect stories and statistics demonstrating the high return on investment for realized planned gifts. Tell stories around the leverage of realized planned gifts compared to modest lifetime giving. Emphasize the correlation of unremarkable annual giving compared to exceptionally large planned gifts. Donor acquisition via annual giving is a comparatively expensive proposition. Even so, viewed in their totality, combining total annual gifts from donors who also make a planned gift demonstrates the effectiveness of blending the outright and the planned gift.

Similarly, combining planned gifts with principal or major gifts maximizes donor giving potential. The major gift donor has the capacity to make sizeable lifetime gifts, but may not be able to make a signature, ultimate gift during life. High net worth donors have significant wealth, but that wealth may be illiquid, difficult to convert to cash. The donor's death may trigger liquidity events that allow the donor to make significant planned gifts that they could not have made during life. (This is particularly the case with closely-held businesses and other investments.)

The True Correlation of Planned and Outright Giving

The received wisdom conveyed to most non-planned giving fundraisers is that if you put the planned gift on the table, the donor will balk at making a current gift. The first response to that argument is that, if true, this presumes that donors are not generous. Donors want to make the smallest gift possible to get the fundraiser to go away. If that is the case, the question is not whether to put planned giving on the table. The more important question is, are your donors properly qualified and genuinely committed to supporting your mission.

The second response as to the wisdom of offering outright gift donors a planned giving opportunity is that the academic research does not support such an assumption. Dr. Russell James is a professor of finance at Texas Tech University. His area of specialty is research into deferred giving donor behavior.

Dr. James has been analyzing the charitable findings of the University of Michigan Health and Retirement Study (HRS). The HRS is a longitudinal panel study that surveys a representative sample of more than 26,000 Americans over the age of 50 every two years. Dr. James reviewed responses from thousands of participants relative to annual and planned giving. Dr. James found that the average total annual gift from study participants prior to making a planned gift was $4,210. He learned that after making a planned gift, the study participants made an average total annual gift of $7,381.

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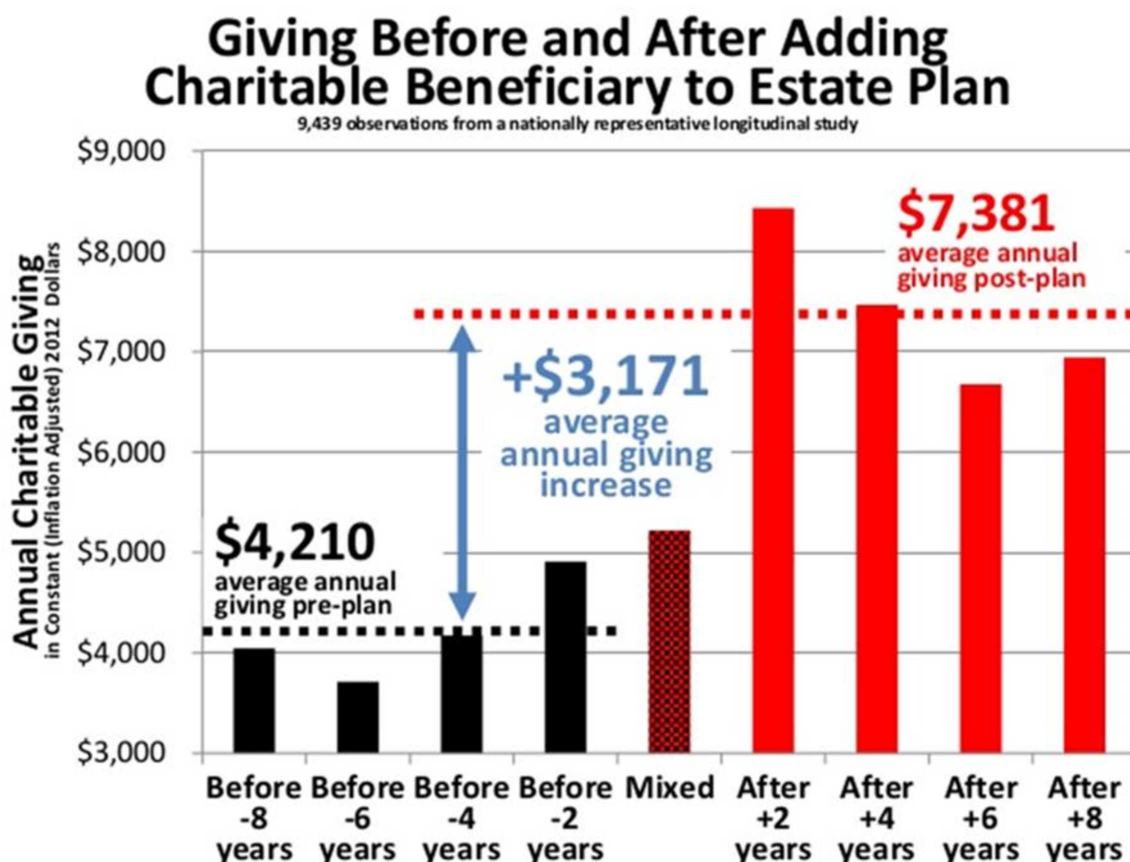

The table above shows Dr. James findings that a donors' annual gifts actually increased by a material amount after arranging a planned gift. These donors increased their giving in the two years prior to arranging the planned gift and in the two years subsequent to arranging the planned gift.

The data do not support the misconception that donors presented with planned giving opportunities will forgo the outright gift. In fact, outright giving increase substantially after arranging a planned gift. Several theories may explain this correlation between planned giving and outright gifts. Estate planning decisions are highly emotional. The estate planning process focuses attention on the importance of people and causes. The assessment process may increase the donor's affinity and propensity to make gifts to causes they value.

Infrastructure to Support Collaboration

Annual, Major and Principal gift officers manage large portfolios requiring significant time and attention to meet fundraising goals. A planned gift may require more time, attention, and internal approvals to complete. The time spent shepherding planned gifts to completion diverts time from the gift officer's portfolio for now-money gifts.

- **Effective Gift Policies**
  Create an internal infrastructure to quickly evaluate and negotiate planned gifts. Clear gift acceptance policies encourage all fundraisers to know the "rules of the road" when talking to donors. Gift officers often freeze if a donor offers an unusual asset or a complicated gift

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plan. Charities are risk averse and avoid potential liability at every turn. Effective gift acceptance policies provide practical guidance to development officers as to what assets and gift plans require due diligence by the charity.

Gift policies should describe in plain English the process for facilitating unusual gifts. A good technique is to create a gift acceptance committee in the gift acceptance policy. The committee is an ad hoc group of charity stakeholders called upon from time to time to evaluate acceptance of complex gifts. The composition of the committee will depend on the asset (real estate, tangible personal property for example) or the gift plan (charity acting as trustee of charitable trust for example). The charge of the committee is to quickly evaluate what gifts are or are not acceptable and what gifts may be acceptable after appropriate due diligence.

Relationships are a key component of effective fundraising. Charity infrastructure should encourage the primary fundraiser to stay in the process of structuring and creating planned gifts. Allies such as the planned giving office, finance, and the general counsel's office can assist to evaluate and facilitate completing the gift. The gift officer preserves the relationship with the donor without getting bogged down in the details of completing the planned gift.

- **Counting and Valuation Practices to Facilitate Collaboration**

Generous counting and crediting policies encourage fundraising cooperation between Major and Principal gift officers and planned giving officers. In particular, for purposes of measuring fundraising performance it makes sense to share credit between major gift and planned gift fundraisers.

For example, an MGO identifies a prospect willing to consider a bequest. The planned giving officer then provides bequest language and gets a signed bequest intention. The bequest is revocable, and when it will come in is uncertain. Nonetheless, the MGO and the planned giving officer collaborated to secure a bequest intention that strengthens the deferred gift pipeline. Each gift officer can receive full credit for closing the gift. Bequest intentions do not feed to finance and often are not included in department fundraising totals. Generous crediting in this situation creates incentives for outright and planned gift collaboration.

- **Metrics that Reward Collaboration**

A familiar saying in business is what is measured, gets done. Indeed, metrics drive fundraiser behavior. Typically, fundraiser performance is measured by activity (number of donor visits for example), dollars raised, and the number of significant moves made by the gift officer with their donors.

Consider adding metrics for evaluating major and principal gift officer performance such as:

- Number of substantive planned giving conversations and visits by the gift officer
- Number of referrals to planned giving officers
- Number of joint visits with planned giving officers (post-Covid of course)
- Number of blended gifts (outright and deferred combination) closed in collaboration with planned giving staff
- Number of new legacy society members added
- Current gifts from legacy society members

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Some of these metrics may also apply to annual fund officers to encourage planned giving engagement. Many bequests come from regular annual fund donors that give at larger than average amounts. Consider metrics like number of referrals to planned giving and the increase in annual fund gifts from legacy society members versus non-legacy society donors.

III. Creating Blended Gift Opportunities

Why Blended Gifts?

Blended gifts offer advantages and opportunities to charities and donors. Donors can make larger gifts than they thought possible. Charities receive larger gifts. In short, blended gifts maximize donor potential to make the largest gifts possible to the benefit of the organizations they support.

What is a blended gift exactly? Blended gifts take many forms. Most gift officers think blended gifts combine a planned gift and an outright gift. While the planned/major gift is the most common blended gift combination, there are other ways to create gifts that are accurately called "blended."

Tips for Blended Asks

Development officers focus on soliciting and closing outright gifts. We have already discussed the constant pressure for current cash that drives the fundraising conversation. Donors can be under-solicited by concentrating and asking exclusively for current gifts. Combinations of different gift plans maximize a prospect's giving capacity. The planned giving conversation moves the discussion from cash to assets. The prospect turns their attention from what they can do now to their ultimate gift.

Who Are Blended Gift Prospects?

I wish I could do more. A donor who said yes to a solicitation may balk at the amount of the request. A solicitation that blends current giving, gifts of assets instead of cash, pledges over time, and planned gifts honor the donor's need to meet multiple obligations with maximum flexibility. The blended gift lets the donor make the gift they did not think was possible.

Age of the donor. Not all prospects are candidates for blended asks. Gifts realized upon the death of the donor mean planned gifts are usually considered with older donors, often 75 or older.

The term of some planned gifts is not measured by life expectancy. Some gifts conclude after a fixed term of years, instead. Younger prospects could use these gifts to create a blended outright and planned gift solicitation.

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Attractive Gift Plans for Blended Asks

Bequests/Beneficiary Designations The most lucrative sources of planned gifts are the bequest from a will or trust and the beneficiary designation on financial accounts such as IRAs. Once a major gift donor has decided to make a gift, the single most common objection to a major gift solicitation is the amount. Even the highest-net-worth individuals worry about running out of money, the impact of taxes on current income, and transfer taxes on gifts to heirs at death.

Bequests/beneficiary designations do not provide current support, they are revocable, and these gifts are only realized upon the donor's death. The bequest becomes more attractive when blended with an outright gift prior to the donor's death. The simplest blended gift breaks the solicitation into two phases. First, the donor makes an outright gift either in a lump sum or in a pledge over a term of years. Second, the donors include a provision in their estate plans to complete their total gift to charity.

People with a strong belief in the efficacy of charitable organizations are likely to leave a planned gift. These donors feel that your charity is more effectively providing services than other charities.

Charitable bequest giving in the United States is increasing. Among the U.S. population of adults aged 55 and above who have completed a will or trust there is an increasing trend to include a charity as a beneficiary. In the decade following 1998, including a charitable bequest grew by almost one fourth, from 8.28% to 10.12%. This trend may be driven in part by growing levels of education and childlessness among this age group as both have been associated with increased likelihood of charitable estate planning.

Over 80% of charitable bequest dollars came from decedents aged 80+ 83.5% of all charitable bequest dollars come from donors dying at age 80 or older. The majority of all charitable bequest dollars came from those dying in their 80s. Given improvements in medical technology driving the relatively rapid expansion in population groups at the oldest ages, it is likely that this over-representation of the oldest old among bequest donors will increase in future years.

Most realized charitable planning is completed relatively near death A substantial number of decedents appear to have added a charitable component to their estate plans in the years leading up to the time of death. In total, two-thirds of donors (representing over half of all charitable estate dollars) gave a negative response to the charitable plan question at some point within five years of the date of death. This suggests that planning within the final five years prior to death is particularly critical.

Social Norming Charitable bequests are influenced by social examples. 1,000 people who were making their will were asked, "Would you like to leave any money to charity in your will?" 10.4% of these individuals expressed an interest in a charitable giving.

Another group of 1,000 individuals making their wills were told, "Many of our clients like to leave money to charity in their will. Are there any causes you're passionate about?" Interest in a charitable bequest increased to 15.4%.

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Gifts of Assets As a percentage of their assets, high-net-worth donors hold the majority of their wealth in illiquid investments and not cash. These assets may be real estate, closely held business assets, private equity, and in some cases tangible personal property such as art and jewelry. As a percentage of their assets, the wealthy hold relatively small amounts of cash. It's unsure to whom to attribute this quote, but the saying goes, when you ask for cash you are asking small. When you ask for assets, you are asking big.

Typically, non-profits have a low risk tolerance. Donors have entrusted public charities with their money. Donors expect non-profits to act prudently and avoid unnecessary risk. Non-profits are not in business of financial speculation. Accepting gifts of illiquid assets is not inherently risky. Carefully drafted gift acceptance policies should describe a process of due diligence before accepting gifts other than cash or publicly traded securities.

Gift Plans Using Blended Asks

The balance of this presentation consists of case studies using blended gift solutions. In each case the donor or donors are each over 75. In the case of a two-life plan, the planned gift is to be realized upon the death of the first spouse, and not subject to any contingencies. Some of the planned gifts use revocable bequests/beneficiary designations; others use irrevocable estate commitments.

III. Outright and Planned Gifts that Maximize Donor Potential

1. A pledge combined with a bequest

Don Howard is single and age 78. His wife died from a pulmonary condition at a relatively young age. You represent a major academic medical center. Mr. and Mrs. Howard have two children. One is financially secure; the other is not good with money. Since Mrs. Howard's death, the research at your medical center developed highly effective new therapies to treat the condition from which she suffered. This research has revolutionized the care and treatment of this pulmonary condition.

Don has made regular annual gifts in the $1,000 to $5,000 range. Five years ago, he was solicited for and made a gift of $10,000 toward the medical center's last campaign to build a new research center.

Prospect research estimates his giving capacity at between $250,000 and $500,000 and Don's major gift score is Very High indicating a high likelihood to make a major gift.

Based on his giving capacity and major gift rating, you solicit him for $250,000 to fund a named lectureship in memory of his wife to encourage academic research. The purpose of the lectureship would be to promote the study of the causes and treatment of pulmonary diseases. Each annual lecture would be published in the Journal of Pulmonary Medicine.

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Don is deeply moved by your presentation. The lectureship would be a living memorial to his late wife and leave a lasting legacy toward medical research. Don reacts positively to the solicitation, but responds, "I would like to make this gift, but I can't make a gift of that size."

Why can't Don make a gift of that size at this time? Prospect research suggests Don has at least $5,000,000 in assets. Relative to his wealth and given his age, he can easily afford this gift. Nonetheless, Don is concerned about running out of money and he has multiple financial priorities: preserving his wealth and health, providing for his family, and supporting the other charities of interest to him.

How can we get Don to $250,000? Consider dividing up the gift between two sources. 50% of the gift, $125,000, would be in a five-year pledge. The pledge payments could be equal installments of $25,000 a year.

Alternatively, Don could backload his pledge. The first four years would pay half of the pledge. The first year's installment starts at $6,250 and increases in 5% increments. The second half of the pledge would be paid in a balloon payment in the fifth year.

$ 125,000	Graduated steps
$ 6,250	5%
$ 12,500	10%
$ 18,750	15%
$ 25,000	20%
$ 62,500	50%

Where will the $125,000 balance come from? Don could enter into an irrevocable pledge to make a gift at his death of $125,000. The combination of the pledge and the bequest honor Don's concerns about giving away too much during his life.

2. Short-Term Grantor Lead Trust for a Campaign Gift

Dr. Henry Watson, Chairman of your Board, has been asked for a $1,000,000 capital campaign gift to support a building campaign at your charity. Mr. Watson is prepared to make a gift at this level if he can pay it off in installments over the 5-year period of the campaign.

During discussions about how Dr. Watson might do this, you learn not only that he is interested in making a leadership gift, but also that his company has realized significant tax savings under the new tax law, increasing its effective profitability. His compensation is tied to earnings, so he is expecting to receive an exceptionally large bonus. Hence, a large income tax deduction may be of particular interest this year.

A possible solution would be for Dr. Watson to create a grantor charitable lead annuity trust (CLAT) with a 5-year term and an annual payment amount of $200,000. Given the brief duration of the trust, you suggest a grantor CLAT funded with $1 million that would make payments to charity of $200,000 per year for five years.

The grantor lead trust generates an income tax deduction of $988,111. Assuming a 37% income tax rate, Dr. Watson would enjoy tax savings of $365,501.

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20% Grantor Lead Annuity Trust

YR	Year-End Principal	Payout to Charity
1	860,000	200,000
2	711,600	200,000
3	554,296	200,000
4	387,554	200,000
5	210,807	200,000
TOT	**210,807**	**1,000,000**

In the example above, the trust earns investment returns of 6% a year. Since the lead trust payout is 20% of the principal, you can see that the principal diminishes quickly. At the end of the five years, the trust returns its principal of $201,807 of the original $1,000,000 gift to Dr. Watson.

Why would Dr. Watson consider such a gift? He enjoyed income tax savings of as much as $365,501 in the year of the gift and a return of principal of $210,807 in year 5. The total benefits from the trust equal $576,308. That means Dr. Watson was able to make a gift of $1,000,000 at a cost of $432,692.

3. Life Income and a Pledge

Peggy and Pete Minetti are ages 80 and 83. Peggy is a successful alum of the research university for whom you work. Pete and Peggy have been generous annual and major gift donors to the university. The Minettis have a capacity rating of $1,000,000 to $3,000,000 and rated Very High for major gift likelihood.

You solicit Peggy and Pete for $2,000,000 to establish a Junior Chair at the university named in Peggy's honor. Peggy and Pete are intrigued, and tentatively agree. After considering the solicitation, the Minettis decide to increase their gift for a full chair at the $3, 500,000 level.

This is a stretch gift for Peggy and Pete. They enter into a cash pledge in six annual installments for a total of $2,000,000. The cash pledge allows them to establish the Junior Chair during their lives.

Irrevocable Pledge Agreement

The balance of the gift, $1,500,000 to fully fund the chair, could be structured two ways. They could enter into an irrevocable pledge agreement that obligates them to pay either during life or from their estate an amount to satisfy the balance of their $1,500,000.

The pledge agreement would contain language similar to this: "I pledge to contribute a total of $1,500,000 to Charity. Any portion of the $1,500,000 I have not contributed by the time of my death shall become a debt owed by my estate to Charity." The pledge is an obligation to pay, either during life or at death, the full $1,500,000.

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Life Income Gift, Charitable Remainder Trust

As an alternative to the pledge, the Minettis could fund a charitable remainder unitrust (CRUT) with a gift of $1,500,000. The remainder left in the CRUT at their death is applied to the balance of the $1,500,000 pledge.

Use caution when using a life income gift in a blended gift. A charitable remainder unitrust pays a percentage of its value as revalued each year. If the CRUT has investment returns in excess of the trust payout each year, the balance left in the CRUT should equal or exceed the original gift. Conversely, if the CRUT investment returns are lower than the trust payout, the principal will decrease.

The value of the CRUT principal varies depending on fluctuations in the CRUT investments net of its payments. The net effect is that funding a CRUT with $1,500,000 does not guarantee the original CRUT principal will be left at the beneficiary's death.

The same caution applies with even greater force to charitable gift annuities (CGA) used to satisfy a minimum pledge amount. For purposes of setting gift annuity rates the American Council on Gift Annuities assumes that only 50% of the original gift will be left at the death of the annuitants. In fact, the residuum from the CGA balance could be zero at the termination of the CGA.

In every case where a blended gift includes a life income component, the gift should be backed up by an irrevocable pledge as described above. The irrevocable pledge ensures that the balance paid to charity at the termination of the life income gift will be sufficient to satisfy the donor's gift commitment.

Notes on Life Income Gifts

There are several ways to address the cautions raised above about using life income gifts as the planned gift component of a blended ask. In the example above, the Minettis could make a gift of the payments from the CRUT to help pay down their $2,000,000 lifetime pledge. Assuming a 5% CRUT and a balance of $1,500,000 in the trust, the CRUT would make annual gifts of $75,000 over the six-year pledge period. The Minettis would still be liable for taxes on the CRUT payments but the income tax charitable deduction on the gift of the payments would offset the income tax liability.

At the time of the original gift plan, the Minettis were concerned about running out of money. They may find that they do not need the CRUT income after all. They could surrender their interest in the CRUT in favor of the university to complete their gift during their lifetime. In addition, in the year of surrendering their rights to payments, the Minettis would be entitled to an income tax charitable deduction equal to the present value of their remaining life interest.

4. Gifts of Assets

Hattie Vallejo, age 72, and her late husband invested in rental homes and apartment buildings. Over the years they accumulated 15 properties with good cash flow. Three of the apartment buildings have a combined value of $1,500,000, are fully rented, debt free and are adjacent to the

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campus of your college in their small hometown. The apartments could easily be converted to much needed student housing.

Hattie and her late husband never attended college. Nonetheless, the Vallejo's have seen that the college contributes to the economy of the community. The Vallejo's took advantage of the arts and sporting events at the college that enrich the lives of their beloved hometown.

The Vallejo's are loyal annual fund supporters and have held season tickets to your football and theater and music series. You approach Mrs. Vallejo about her plans for the three buildings of interest to the college. She is intrigued, but wonders why the college doesn't just buy the buildings from her. The cost basis of the real estate is quite low and there would be depreciation recapture at the sale. The taxes would diminish her net proceeds materially. You offer some gift solutions that could reduce her tax burden and provide her with cash.

Fund a Life Income Gift

The apartment buildings could fund a charitable remainder unitrust (CRUT) with a flip provision. The flip CRUT pays its net income so long as it holds the apartment buildings. Mrs. Vallejo would continue to receive the rental income net of fees such as utilities, maintenance, and insurance. In addition, in the year of the gift, Mrs. Vallejo enjoys a significant income tax charitable deduction. No taxes are due upon funding the CRUT.

The college immediately buys the buildings from the CRUT and the trustee invests the proceeds of the sale in a portfolio of securities. In the year following the sale, the CRUT flips, or converts, to a straight payout unitrust. A straight payout unitrust pays a percentage of its value as revalued annually. Mrs. Vallejo enjoys significant tax savings and receives an income for life.

Bargain sale

Rather than receive an income for life, Mrs. Vallejo may decide that instead of a lifetime income stream from a CRUT, she wants a lump sum payment. She wonders how she might arrange a sale and minimize her tax liability.

She might consider a bargain sale. If Mrs. Vallejo sells the buildings for less than fair market value with the intention of making a gift, she could enjoy an income tax charitable deduction and receive cash proceeds in the year of the sale. Assume the property is worth $1,500,000 with a $50,000 cost basis and she sells the property to the college for $750,000. She would receive an income tax charitable deduction of $750,000 subject to the 30% of AGI limit on charitable deductions for gifts of long term appreciated property. She would be able to carry over unused deduction for up to five years, if needed.

If Mrs. Vallejo sold the property to the college, she would have $1,450,000 of capital gain income. If she enters into the bargain sale described above, she cuts her capital gain income by 50% to $725,000. If she is subject to a 23.8% capital gain tax rate, she has cut her capital gain tax bill from $345,100 to $172,550. If she can take all of her charitable income tax deduction in the year of her gift and she is in the 37% bracket, she would save $277,500 in income taxes. The net effect is Mrs. Vallejo enjoys economic benefit of $1,200,000 in the form of a $750,000 cash payment plus her capital gain and income tax savings.

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5. Virtual Endowment

Another type of blended gift is one that respects the donor's desire to preserve capital to maintain their lifestyle and be prepared for possible future medical expenses. Nonetheless, the donors can see the fruits of an endowment during their lives.

Miriam Ewing is 82 years old and would like to create an endowment in honor of her son who lost his life fighting in Afghanistan. Your endowment minimum is $1,000,000. Mrs. Ewing is financially comfortable thanks to her inheritance from her late husband. Nonetheless, she is conservative and does not want to make a gift of that size now. She is willing to leave a $1,000,000 bequest, but in that case the endowment wouldn't be created until her death.

Miriam has been using her IRA to make qualified charitable distributions to her favorite charities. Your endowment spending rate is 5% a year. You propose an agreement whereby Miriam makes a QCD from her IRA each year of $50,000 (5% of a $1,000,000 endowment) to be used each year for purposes in memory of her son.

Miriam will still leave a $1,000,000 bequest from her estate to fully fund the endowment. The QCD satisfies Miriam's required minimum distribution, is not included in her income, and she gets to see the endowment at work during her life.

Conclusion

Collegiality and collaboration among gift officers are a rising tide that lifts all boats. Create the infrastructure to reward and encourage cooperation between planned and outright giving staff. Some gift plans blend current and outright giving techniques to achieve donor goals. Others combine familiar giving techniques in innovative ways to maximize donor potential. When looking for a solution for a donor, keep in mind that combining two or more giving techniques may be the best way forward.

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