# Making (and Remaking) the Case for Your Planned Giving Program

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# I. Introduction

"Cash is King." Who could argue with that? What organization would not want to have all its contributions in hand now, received in the easiest possible form, in order to put them to use in whichever way the organization most needed them? Of course such gifts are the lifeblood of every organization. But only accepting cash gifts does pose some problems.

First, from an organizational perspective, relying on cash in the door each year to meet the fundraising goal can be an increasingly stressful task, particularly as the organization grows and expands its mission. Such reliance presumes maintaining or increasing contributions from existing donors and/or finding new donors to shoulder the increase or replace lapsed donors. Both things, of course, are part of the fundraising goals of the organization, but they may not be able to keep up with the "demand" of the budget. Planned gifts can help ease that annual pressure, either with distributed dollars from a pipeline of maturing bequests and life income gifts or with distributions from an endowment built through planned gifts. In essence a planned giving program allows a charity to expand its donor base and reach dollars it would not otherwise reach.

The second problem with being cash focused is that for many donors such a limitation restricts the size of gift they can make. For most individuals, the greater of their wealth is in non-cash assets. A cash contribution comes from disposable income, more accessible savings, or selling an asset, the last of which may be very disadvantageous from a tax perspective. And while most organizations would consider outright gifts of very liquid, non-cash assets, to be as good as cash, the donor may not be in a position to give the entire asset, or at least not in their lifetime or not without generating some cash flow in return.

Making the case for planned giving is therefore not an attempt to argue that cash is not king. Rather, it is highlighting the importance of gifts of non-cash assets and deferred gifts, from both an organizational and a donor perspective. Accepting such gifts shows an awareness of a donor's assets, along with a willingness to enable the donor to support the organization in a way that best suits their situation. In other words it makes the charity "donor friendly." In return, the organization gains added stability in its fundraising and insures it is able to receive what typically are the donors' largest gifts. While planned gifts may not be "king", they are perhaps the queen . . . and definitely not the jester.

# II. Making and Remaking – a Difference of Perception

There are certain similarities between making and remaking the case for planned giving, although obviously some differences as well, given their pre-program versus post-program roles. However, there is another difference that warrants specific mention. That difference is one of perception, with making the case generally being viewed in a more positive light, while remaking the case is often viewed more negatively. Why is that?

Making the initial case for a planned giving program is a very positive, proactive step for an organization. It reflects a maturing of the organization, an ability to focus longer term. The idea itself may have widespread support even before any case has been made, with interest in the program coming from executive leadership that has heard of planned giving success from peer organizations, or consideration of the program may have been prompted by a board member interested in making a planned gift. There may be excitement to "get on board" with planned giving, so as to share in receiving the large gifts that are highlighted in various fundraising publications. Certainly there is a need to gather and present information so that a decision can be made, but it is approached as appropriate due diligence. Often the launch of the program is almost a given, with the decisions focusing more on how that will look – what types of gifts will be sought and what staff and budget implications the program will have.

On the other hand, remaking the case is often a reactive step. There may be a change in emphasis within the organization, resulting from new leadership at the executive or board level. Perhaps the expected results have not materialized, or there are concerns that arise from an economic downturn. Whatever the cause, the need to gather and present information can be viewed as a punishment, to having to plead for support amid fear that the contraction of the program is a given.

Such a strong, negative reaction is often the result of a larger, situation-specific request to remake the case. Often these seem to come out of the blue, and may catch Development staff off guard. It is probably impossible to do away completely with such situational reviews, and in fact over time there are likely to be circumstances where it is prudent to look at the program with a critical eye, in order to ensure the program is operating most effectively. However, there are things that can be done to reduce the negative perception that such a request can generate. From a practical perspective, the case for a planned giving program should really be made on a continuous basis. Ongoing reporting not only guides the activities of staff, but builds the framework for understanding and appreciating the program. Such reporting flows from the initial making of the case, and allows for continuous adjustment in expectations and addressing of concerns. Rather than being viewed negatively, remaking the case should be approached as an ongoing analysis designed to enhance the program, a tool in making sure it is as effective and successful as possible.

## III. Focus of the Case

When making the initial case, the focus is primarily on the organization itself and its donor base, with use of some basic externally derived data to help establish expectations. On the other hand, when remaking the case there is more internal data available, with the main question being how to utilize it and what to measure. What follows are some factors that should be considered.

<u>Organizational Structure</u>

In order for donors to feel comfortable in making a large gift, particularly one that will not come to fruition until many years down the road, the organization needs to be perceived as having longevity. This reflects not only the years that the organization has already been in existence, but also what its future holds. If the organization's mission is aimed at addressing an immediate need, or eradicating a disease within a set period of time, it will be difficult to get donors on board with gifts that could mature after that mission has been met. It may be that the actual mission of the organization has changed over time and become broader or longer term in focus, but that the stated mission (or the public perception of its mission) is still more time-constrained. If this is the situation, then making the case for planned giving will need to include a recommendation for a restatement of the organization's mission, along with an acknowledgment that educating donors and the public will be part of the launch of the planned giving program. It is also important to have conversations with key supporters – donors, volunteers, and board members – with the intent to discover how they view the organization. Just as individuals have differing relationships with various people in their lives, so too they have differing relationships with charities, which can affect the level of financial support they are willing to make to a particular organization.

Another key element with respect to the organization is staff, both in numbers and in level of expertise. More specifics about certain gift types will be discussed later, but as part of making the case for planned giving it is important to outline what responsibilities there will be and who will handle them. It is possible to outsource most, if not all, of the administrative functions, but obviously at a cost. At a minimum, though, staff time will be needed for donor interactions. If the impetus for starting a planned giving is coming from the Board or executive leadership, there can be the presumption that any new responsibilities can be absorbed by existing staff. While this may be possible, at least in the short term, it is important to be clear about what can be accomplished and how limiting staff means limiting the scope of the program.

<u>Donor Base</u>

In addition to gauging how your organization is perceived by its donors, as noted above, it is also critical to look at the demographics of your donor base. The prime age for planned gifts is generally thought of as between 60 and 80, with a "secondary market" including a 10-year extension on either side of that range. If an organization finds that relatively few of its donors are age 60 or older, it would be advised to delay the start of a formal planned giving program, and instead be aware of individual donor situations that may warrant raising planned gift options. Presuming that once a charity begins marketing planned gifts it will expand its donor base and attract new donors that fall within the appropriate range is unrealistic, and will not only lead to a quickly terminated program but perhaps lingering negative views that could affect the decision to move ahead with a program when the time is right.

Beyond looking at the organization's own donor base, external data can inform the decision to launch a program as well. Russell James, [Professor of Personal Finance at Texas Tech University in his presentation at the 2013 National Conference on Philanthropic Planning, titled *Trending Forward: Emerging Demographics Driving Planned Giving* (co-authored with Jackie Franey), noted a significant growth in the numbers of individuals within the 50 – 69 age group over the period from 2001 to 2012, as reported by the U.S. Census. This contrasts with much smaller growth in the older age groups, and no growth in the 75 – 79 age group. This difference is primarily the result of the "baby bust" that occurred from 1924 – 1933, and the "baby boom" that occurred between 1946 and1964. While the oldest boomers have already reached the lower portion of the primary planned gift range, there are several decades ahead in which this cohort will continue to move through, and increase, the numbers of individuals within that planned gift range. Coupled with increasing longevity, James notes the likelihood of modest increases in bequests and other planned gifts over the next five to seven years, with more significant growth after that. Obviously not everyone in that age group will make a planned gift, but being aware of such a "wave" is an important factor to consider in making the case for a planned giving program, or in remaking the case for a program that may have lapsed or stalled.

Consideration should be given not only to the ages of donors, but also to length of giving and consistency of giving, both of which are viewed as strong indicators of a propensity to make a planned gift. An organization with a sizeable population of donors that have been supporting the organization with annual gifts over a long period of time, and with limited "non-gift" years, has a strong foundation from which to start its planned giving efforts. While level of giving is not irrelevant, having significant numbers of donors making larger annual gifts, but on a less frequent or consistent basis, provides a stronger indication for major gift capacity, rather than planned gift capacity.

## Metrics

Part of making the case is addressing expectations of what a planned giving program will bring to the organization. In the initial excitement, it can be easy for expectations to get out of control, either because of overstatements or a lack of statements. Use of metrics can be a prime way to set more realistic expectations, and provide a reference point for future discussions. It also sets the stage for ongoing measurement, which can lead to a more collaborative and continual "making of the case." While it may seem that leaving things open and non-specified allows the program to grow more organically, the reality is that lack of touchstones can instead lead to the eruption of having to remake the case in a more antagonistic setting. Where no framework for expectations is stated, people will supply their own and then be disappointed when theirs have not been met.

In setting initial expectations, it should be understood that it will probably be five years before an organization starts seeing dollars in the door from its planned giving program. Thus, in the initial stage, it is best to avoid setting dollar figures: if they aren't met, the program could be terminated before it even has a chance to get started.

Instead the focus should be on activity levels, the most important being the number of visits with prospects and donors. The number should obviously take into account the staff and time that is expected to be available. However, it may be helpful to use general figures as a comparison, particularly in building the case for additional staff, either at the start of the program or down the road. For example, a common range for a person doing planned giving full time is to make 120 to 180 visits per year (10 to 15 visits per month). A person who will be fitting planned giving in among many other duties might present the case by indicating that three visits are the most that can be expected per month. This information helps set realistic expectations for the potential rate of growth of the program, and creates the understanding that additional resources will be needed if quicker growth is desired.

Having conversations with individuals at peer institutions that have recently started a program can also be a good source of comparative information. While what happens at one organization is not guaranteed to be replicated at another, it can provide an indicator of what might be expected. However, be wary about using specific figures from organizations that have a long-established program. Such comparison, while seeming to be a good motivator for starting a program, can lead to those inflated expectations mentioned earlier, where the "down the road" projections can shift to being immediate expectations.

In remaking the case over the next few years, activity might be broken down in additional ways, such as initial visits with new prospects, cultivation calls designed to move the gift forward, stewardship calls, phone calls made, and letters/substantive e-mail messages sent. Conducting and then measuring more nuanced activity draws attention to the different steps in the process of obtaining a planned gift.

As the program matures, remaking the case (whether on an ongoing basis or situationally) can make use not only of activity but of productivity data from within the organization. This can be in terms of numbers of gifts, dollars, or a ratio of the two. Report the size of the matured planned gift compared with the donor's lifetime giving and/or average annual gift; even when the gift isn't particularly large, it is usually still several multiples of these figures. This helps make the point that planned gifts are 'capstone' gifts and enable the organization to realize the full benefit of years of working with the donor by the development, donor relations, and communications offices, and others throughout the organization.

Numbers, however, should not be provided in a vacuum. Do not take for granted that others within the organization understand the process or can put the numbers into context. In addition to providing statistics, therefore, also provide donor stories, connecting the gifts/dollars with the steps that led up to them. Embrace the differences between planned gifts and annual gifts – fewer but larger gifts, with more time and people involved in making them happen. In reporting on both the dollars brought in and the number of gifts, highlight the average and median gift size. Be sure to talk about large "game changer" gifts even after some time has passed, reminding people how those gifts came to be and the impact that they have.

## IV. Broad Concerns

Because of the relationship nature of planned gifts, it is intuitive that a donor who makes such an arrangement would continue to support the organization on an annual basis and, having solidified further their connection, would increase such support. While this positive connection between planned giving and annual giving is much discussed, the support for it has tended to be anecdotal. And it has not prevented leadership from expressing concerns that starting a planned giving program will have a negative effect on annual giving, with donors reducing or stopping their support once they have made their planned gift.

Recent analysis by Russell James should help counter this concern when making the case for planned giving. Professor James has analyzed data collected from a federally funded longitudinal study known as the Health and Retirement Study (HRS). Commenced in 1992, the

HRS surveys a representative sample of more than 26,000 people over the age of 50 every two years. As indicated by its name, the survey is focused on issues of health, retirement, and aging, but included are questions related to charitable giving. In his *Mythbusters* presentation at the 2014 National Conference on Philanthropic Planning (formally titled *Golden Nuggets from Ivory Towers: Recent Powerful Research Impacting Gift Planning*), Professor James "busted" the myth that bequest giving negatively affects current giving. The HRS study data reflected that annual giving increased after a charitable beneficiary was added to the estate plan.

Looking at responses from over 9,400 study participants, on average, annual giving was $4,210 over the course of the eight years immediately prior to a charitable bequest being added to an individual's estate plan, and increased to an average of $7,381 over the course of the eight years immediately following the bequest being added. Interestingly, it was not a steady increase in the eight years leading up to the gift, but rather there was a significant bump up in average between four years before and two years before – from just above $4,000 to just under $5,000, and then a slight increase again in the year of the bequest addition. In the two years following the bequest provision being made, there was a particularly large increase in average annual giving, rising to almost $8,500. Over the next four years (i.e., four years and six years removed from the bequest provision), the average annual giving dropped to approximately $7,400 and $6,600, respectively, but then saw an increase to just under $7,000 eight years after the bequest provision was made.

Another broad concern, the cost to raise a dollar/return on investment (CTRD/ROI), is the subject of much debate as to the degree to which it should be given importance. Some feel that it has become a focal point for analyzing charity effectiveness, driven by charity rating services, but that it has the effect of making organizations strive to have the lowest cost and to shy away from acknowledging that earning money costs money. Financial officers likely view it as a best practice derived from the business world and reflected in the Form 990 reporting. Because of the nature of planned gifts (where the realization of the dollars from the gift can come a number of years after the gift commitment has been made and there can be varying methodologies for counting the value of the gift), calculating CTRD/ROI can be more complex than in the case of annual or major gifts.

For purposes of making the case, and rebutting what may be a presumption that planned giving would have a higher CTRD than other types of fundraising, one can find sources that compare costs across the various fundraising areas. Typical of the findings is the Association for Health Care Philanthropy's *Report on Giving* FY 2002, which in surveying over 200 organizations reported a median cost to raise a dollar was $.05 for planned gifts, as compared to $0.23 for annual gifts. (Special events was the highest, at $0.35, and the CTRD for major gifts was $0.12.) This makes sense when considering that both planned and major gifts tend to be significantly larger.

In her article *The Case for Gift Planning: Analyzing the Cost to Raise a Planned Gift Dollar* (The Journal of Gift Planning, Volume 11, Number 1, 1st quarter 2007), Kristen Dugdale computed her organization's cost to raise planned gifts to be $0.11, about one-half the cost to raise outright gifts. Ms. Dugdale's article includes a detailed discussion of how the calculation was done, which would be useful for organizations wishing to do such an analysis of their own programs once they are well established. However, for organizations just making the case, her summation of the analysis may be the most powerful: “If your organization is in a position to wait for the termination of established deferred gifts, a gift planning effort is a very efficient way to raise money.”

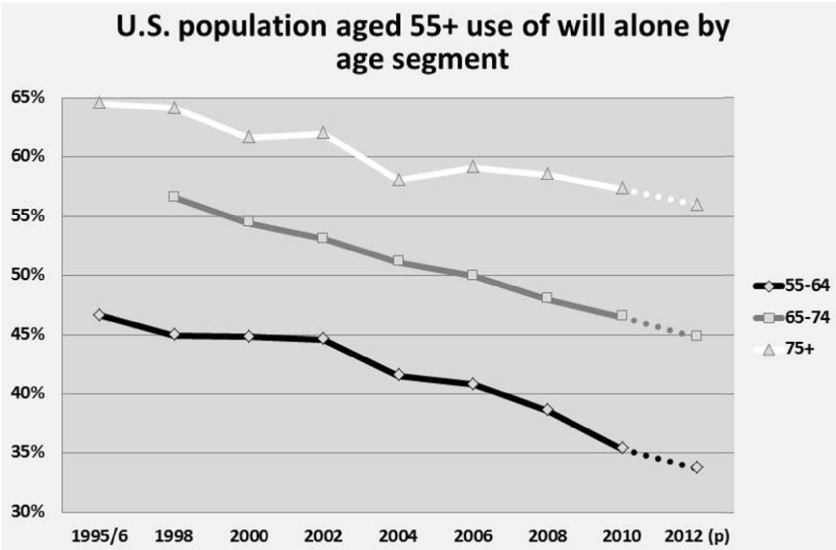
## V. Bequest Program

Bequests generally make up around 75 – 80 percent of planned gifts received by an organization, regardless of the longevity or sophistication of the program. Thus, a bequest program would be the key component for any organization looking to start a planned giving program, and for smaller organizations planned giving may be synonymous with bequests.

In making the case, the focus noted previously (organizational structure, donor base, and metrics) covers the information one would want to provide with respect to a bequest program. Obviously a person can provide for a charitable bequest in their will even in their 20s, but the main focus of a bequest program, in the form of marketing and visits, would be on prospective donors in their 50s and up. As indicated, there is an approaching “wave” of individuals in this age group, providing an encouraging outlook for bequest programs in the coming years.

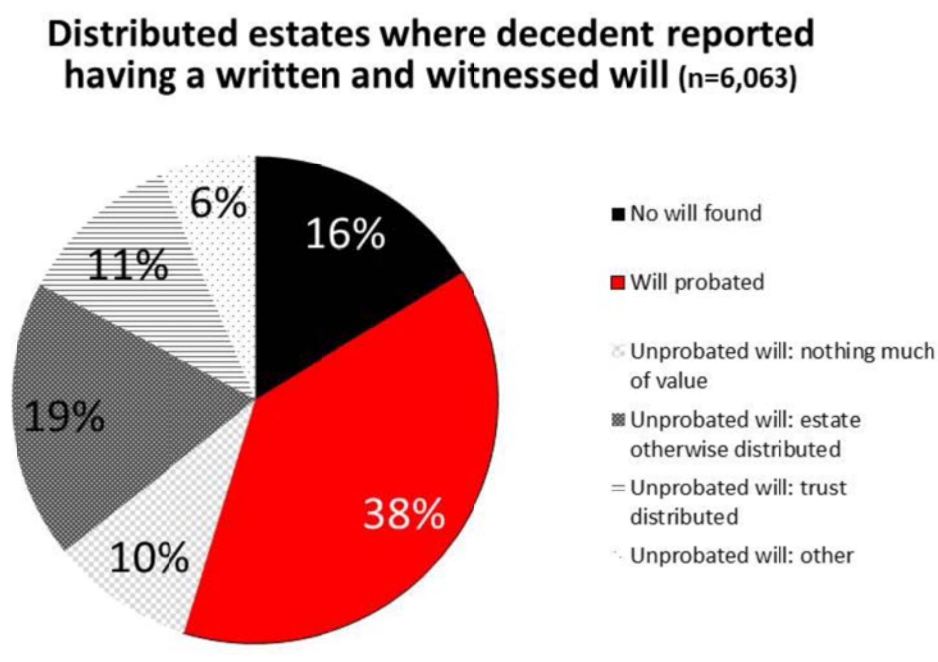
In establishing a bequest program, everyone within the organization should understand that “bequest” means not only a provision made in a person’s will, but also such a provision in a living trust. It also encompasses end-of-life gifts made by naming the charity as a beneficiary of an IRA or other retirement plan, a life insurance policy, checking or savings accounts, investment or brokerage accounts, and even in some cases real estate (via a “transfer on death” deed).

The inclusion of both charitable provisions in living trusts as well as beneficiary designations is important to the success of a bequest program, as usage of such instruments is increasing. In his *Trending Forward* presentation, previously cited, Professor James highlights a general upward trend among 55- to 64-year olds with respect to inclusion of a charitable bequest in their will or trust during the period from 1993 to 2012, rising from 7.5 percent to approximately 12.5 percent. (During that same period there was basically no increase in percentage in the 75+ age group, and a more modest increase, from 7 percent to 9.5 percent, in the 65-74 year old group.) On the other hand, across all three age groups there was a steady decrease in the percentage that used only a will for their estate planning.

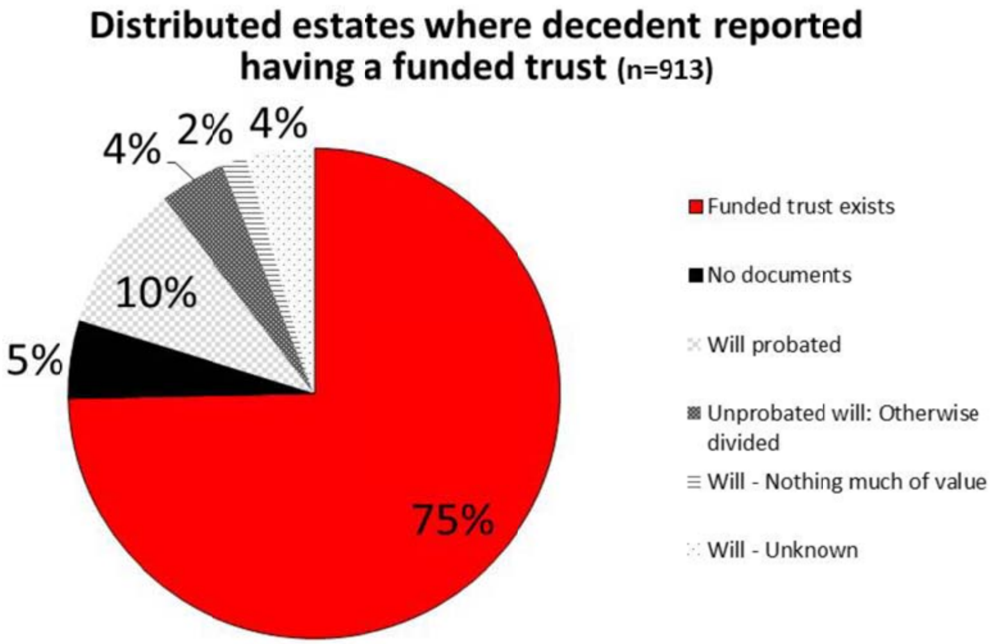



Source: Analysis of HRS data by Professor Russell James. *Trending Forward: Emerging Demographics Driving Planned Giving.*

The importance of non-will provisions is also seen in the results from estate administration involving the more than 10,000 HRS study participants who died. Interviews were conducted with surviving family members to determine what happened to the survey participant's assets after death. For participants who had indicated that a will was in place, only 38 percent of the wills were actually probated, whereas with participants who had indicated a trust was in place, there was a 75-percent rate of assets being transferred through the trust.




Source: Analysis of HRS data by Professor Russell James. *Trending Forward: Emerging Demographics Driving Planned Giving.*




Source: Analysis of HRS data by Professor Russell James. *Trending Forward: Emerging Demographics Driving Planned Giving.*

Because of the "market share" of bequests within planned gifts, it is rarely the case that an organization would consider eliminating its bequest program as an element of the planned giving program. Remaking the case generally comes in one of two contexts: reconsideration of whether the organization should have a planned giving program at all, or disappointment with the results.

With respect to the first, the organizational and donor base items discussed earlier should certainly be revisited, to determine whether perhaps the organization was not well-suited to starting a program. In both contexts, data should be collected and reviewed. If no ongoing reporting has been happening, then this will be the initial gathering of information. If reporting has been occurring, remaking the case will include not only reviewing that information in the context of the disappointment, but also determining whether there is additional information that should be reviewed in order to gain the full picture of the program.

Analysis and measurement enables an organization to learn from the past and make better decisions in the present, plus it informs future actions. Good data collection and tracking mechanisms are essential as are proactive analysis and reporting. And yet, in a poll of attendees at a presentation on bequest programs, slightly less than one-third indicated that they could estimate their cash flow from bequests over the next five years.

How extensively you analyze your data will depend in part upon the size of your program and the robustness of the data collected, as well as your internal staff resources. While there are numerous ways to report data, the point is not to provide any and all that you have. Rather, what you report should reflect what you are trying to show, either on an ongoing basis, or because of a situational need. More reports may be generated for review within the development or planned giving office than might be shown to persons up the chain of command. What is important is to anticipate as much as possible what information may be useful, as well as to know how one will access that information even if it is not provided on a regular basis.

<u>Program Growth</u>

- **New bequest intentions each year for the past five years**
  Additional layers might include tracking whether the numbers relate to specific marketing initiatives, budget increases or cuts, and/or staff changes.

- **Number of realized bequests**
  Over time it may be helpful to differentiate between types of bequest gifts – wills, living trusts, beneficiary designations.

- **Dollar amount of realized bequests**
  (Could be differentiated as noted above for number of realized bequests.)

- **Average bequest amount**
  Options include:
  - an all-gift average v. an adjusted average that disregards both large and small outliers
  - calculating on a year-to-year basis for comparison over time versus calculating using a five- to seven-year period

- **Median bequest amount**
  This figure reflects the halfway point – half of received bequests are larger than this amount and half are smaller – and is another way to give context to the outliers. It could similarly be done on a year-to-year basis or over a rolling five to seven year span.

<u>Value Added</u>

- Compare the size of the realized bequest gift to the donor's *average* annual gift to your non-profit

- Compare the size of each realized bequest gift to the donor's total lifetime gifts to your non-profit

- Average size of annual gifts from donors before and after arrangement of the gift
  As noted earlier, there is both anecdotal evidence and research indicating that a donor's annual giving increases after making a planned gift. Sharing this information can help create goodwill and encourage collaboration across various sections of development.

<u>Benefit of Stewardship</u>

- Additional planned gifts made after notification

- Average size of realized bequests from those who notified the organization versus those received from unknown bequest donors

- Examples of increases (or decreases) in amount of bequest because of stewardship (or lack thereof)

Projected Future Cash Flow

- Amount expected to be received per year, based either on estates in progress or bequest expectancies or both
- Amount expected to be received per year on a present value basis using different assumed rates of return
- Amount expected to be received per year using different mortality assumptions
- Amount expected to be received per year adjusted by a probability of receipt percentage

See Appendix A for sample reports produced by PG Calc's *Bequest Manager*.

## VI. Gift Annuity Program

Of the life income planned gift arrangements, charitable gift annuities account for most of the activity, though it is likely that, nationally, higher dollar amounts are contributed for charitable remainder trusts. The 2013 Survey of Charitable Gift Annuities notes that the 299 charities that responded held about $2.4 billion in gift annuity assets. Although this must be only a fraction of the total gift annuity assets held by all U.S. charities, it also is a small fraction of the $91.7 billion held by charitable remainder trusts (2012 IRS Statistics of Income for Split-Interest Trusts).

Gift annuities are popular with donors, particularly with those in their 70s and older, because of the fixed nature of the payment stream and because they are easy to establish. However, unlike bequests, the offering of gift annuities is not always included in the launch of a new planned giving program. While certainly the organizational and donor base focus noted previously is part of making the case, there are issues that are specific to the decision to issue gift annuities.

Organizational
Individuals who establish gift annuities may well depend on the payments for personal and family security. Thus, only charities that are financially sound and expect to operate indefinitely should accept contributions in exchange for promised payments. Many states that regulate issuance of gift annuities require a charity to have been in existence for a certain period of time (three years is most common, but it can be as much as 20) and have a minimum amount of available assets ranging from $100,000 to $2 million. Even if an organization is not issuing in a state with specific requirements, these parameters help signal the stability that should be in place for an organization that is considering issuing gift annuities.

Risk

The payment from a gift annuity is a general obligation of the organization, unlike a trust, where payments would end if the trust were exhausted. The organization must continue to make payments to the annuitant for his or her lifetime, independent of what happens with the assets contributed for the gift annuity. The organization needs to understand, and be willing to take on, this obligation. While the charity thus assumes a risk, there are ways to minimize that risk through adoption of – and adherence to – policies and procedures relating to both acceptance of the gift and to management and investment of the assets. How detailed the discussion on these issues needs to be in making the case will depend on the familiarity of the organization's leadership with gift annuities and also its risk tolerance. Perhaps the biggest point to convey is that gift annuities will result in a reduction of principal, so that when the sole or second annuitant passes away the charity will realize something less than what was contributed. The rates suggested by the American Council on Gift Annuities, used by the vast majority of organizations, presumes a 50-percent residuum. A higher average residuum, of 64 percent, was reported in the 2013 ACGA survey on gift annuities, though that is lower than the 90-plus percent residuums reported in surveys conducted during the 1990s.

Staff

Successful gift annuity programs almost always have one or more dedicated staff persons who understand gift annuities technically and who have the time to market them and call on prospective donors. Development officers responsible for the annual fund, special events, and proposal writing, as well as planned giving wind up allocating to planned giving only leftover time, which is minimal. Having very few gift annuities can increase the risk to the charity as it relates to the impact of an annuity running dry (i.e., funds exhaust before annuity obligation ends). There are also certain administrative functions that are required, which will either be handled internally or externally. These functions have a cost, either in time or money, which becomes economical across a large pool of gifts, but can seem burdensome when there are just a few. Again, how detailed one needs to be about the tasks associated with gift annuities (preparing illustrations and gift documents, making payments, reporting to the IRS and possibly one or more states) will depend on the nature of the organization. At a minimum, the fact that there are such responsibilities should be noted in making the case, along with an indication of how such tasks would be handled internally and the options for outsourcing.

Donor Base

The primary market for gift annuities is individuals over age 65, and particularly those over age 70. The gift annuity appeals especially to individuals who have reached that stage of life where fixed payments are more important than potential asset growth. While individuals in their 50s and early 60s may be appropriate prospects for a deferred gift annuity (contribution now, payments to start later), such annuities are a small percentage of total gift annuities.

Remaking the Case

The decision to issue gift annuities is the part of a planned giving program most likely to be the subject of repeated revisiting by an organization. This is likely a combination of the risk a charity takes on in issuing gift annuities, the responsibilities associated with running the program, and a misunderstanding of how gift annuities work (or even an outright dislike of them as a gift vehicle).

The following are some of the common issues that prompt concern about a gift annuity program, and how one might respond in remaking the case:

**Number and/or dollar value of gift annuities has dropped**

- ✓ Look back through the sequence that leads up to a gift annuity: was there a similar reduction in the number of proposals sent out? A change in staffing levels? Were there budgetary constraints that led to reduced travel for donor visits and/or marketing pieces? If so, that information can be used to make decisions for moving forward – were changes made that now might be undone? Or is the current situation the "new normal"? Consider also whether the reduction may be the result of outside events ("the great recession") that are affecting all organizations and not just your program.

- ✓ Compare the current average gift amount to those of years past. Look to see if there are fewer annuities with a higher average, or perhaps there are more annuities with a lower average. Was there a change in policy as to the minimum contribution amount? Were there particularly high "outlier" gift annuities in prior years that skewed the totals?

**The gift annuity program is too much work or too costly**

- ✓ This stated concern typically arises when a program has very few annuities. It relates to either internal work on handling gift administration management or to external costs in outsourcing administration and/or fees associated with investment of the gift annuity reserve assets. The question then becomes why there are so few annuities. If it is because of actions taken with respect to seeking gifts (e.g., allocation of staff time, marketing efforts), past activity can be reviewed and changes can be identified. Part of this analysis should also be to measure the commitment of the organization to the issuance of gift annuities. If little is being devoted to the program in the way of staff or budget, and no additional support is to be forthcoming, the organization cannot expect dramatic changes in results, although there may be efficiencies of effort that will lead to some increase. If the lack of annuities is because the organization lacks the type of donor support (either in numbers of prospects in the appropriate age range, or perhaps because the organization is not viewed as having longevity or significant financial footing) then no amount of added staff or budget dollars is likely to result in a large increase in gifts.

**Amount distributed each year is not what was expected**

- ✓ The question to be answered here is what led to those expectations. Quite possibly they were based on distributions in the last year, or over the last few years. Perhaps there were particularly large annuities that ended during that time, or perhaps one or more annuitants who held multiple annuities passed away. If so, there may have been one or more years with unusually high distributions. This can lead to expectations that each successive year will equal or surpass the one before. Of course, given that the distributions will occur as the result of an individual's death one should not expect a consistently upward trend. Even if an organization were consistently to issue more annuities each year, and they were all for the same amount, there would be no guarantee that down the road each year would result in larger distribution amounts. Annuitants of the same age can live to different ages, and ultimate residua from annuities established with the same contribution amount can be for widely different amounts.

- ✓ Going forward, information identified in reviewing past data (large annuities, large concentrations with individuals) can be incorporated in reporting on future distributions. In addition, the charity should develop a way to project residua by year. (See Appendix B for sample reports produced by *GiftWrap*, PG Calc's gift administration software.) Though it is a forecast subject to change because of various factors, it can provide a better understanding of the ebbs and flows of gift annuity distributions.

Perhaps the biggest concern, often unstated and instead expressed in questions such as the ones noted above, is whether the gift annuity program is profitable. Many organizations have only an anecdotal answer to this, plus it can vary over time – and is most frequently connected to the value of the gift annuity reserve fund. When an organization is well over any state-required reserve amount, the feeling is generally very positive. So, too, when investment returns are high year after year, as was the case during the 1990s. When returns dip, and the distance between the required reserve and actual reserves shrinks, concerns about the program grow. The amounts of new contributions and new distributions also affect the perception of whether the program is profitable or not. In this situation, beyond remaking the case, the charity needs to conduct an evaluation of its program. Appendix C contains an excerpt from PG Calc's *Charitable Gift Annuities: The Complete Resource Manual* that outlines how such an evaluation might be performed.

## VII. Charitable Trusts and Complex Assets

A "full service" planned giving program would include charitable remainder trusts, charitable lead trusts, and gifts involving complex assets (e.g., real estate, interests in closely held businesses). However, with these types of gifts it is not so much a making of the case, but rather policy decisions on how such gifts would be handled.

With respect to charitable trusts, there are really two main considerations, both of which relate to the experience level of staff. The first is whether the organization will serve as trustee. Comfort level with the responsibilities will guide whether an organization chooses to perform this role. Opting not to serve as trustee does not mean the charity cannot benefit from charitable trusts, and in fact sometimes donors establish trusts of which the charitable remaindermen are not even aware. However, particularly if the trust comes about as a result of conversations between the two parties, some donors may look to the charity to fill that trustee role. It is beneficial for the charity to have a list of fiduciaries that could serve as trustee in addition to or instead of the charity, and be able to provide that to donors.

The other consideration is whether the organization will in fact actively promote charitable trusts or seek to raise to raise the topic of such a trust as appropriate with prospective donors. If staff does not feel comfortable with the technical aspects of trusts, they may hesitate to get involved in such discussions. In larger organizations there may be a range of experience levels among staff members, and those more knowledgeable can provide training on the basic elements and be brought in to the discussions as they become more technical. For smaller organizations, use of legal counsel or a consultant can provide the requisite level of expertise.

As to gifts involving complex assets, most commonly these issues are addressed within the organization’s gift acceptance policies. Again the decision will be informed by the experience level within the organization. Often the decision to accept such gifts will be placed in the hands of one or more individuals or a committee. Guidance can also be provided by legal counsel, a consultant, or advisors specializing in the particular area.

Over time, rather than a remaking of the case, it becomes more a revision of policies based on experiences. And such revisions can move in either direction. A charity that initially chose not to serve as trustee may become more comfortable and opt to begin doing so, while another charity that had been serving as trustee may find that it no longer wishes to be in that role. Similarly, a particularly good or bad experience with a gift involving a certain asset may result in a change in policy going forward.

## VIII. Conclusion

Making the case for a planned giving program should be approached as an opportunity not only to educate others on the benefits of planned gifts, but also to assess what types of gifts will best serve the organization. Decisions on when and how to move forward need to be tailored to the situation of your organization, and not driven by a particular donor or by what “everyone else” is doing. In addition, as the initial case is made it is important to set reasonable expectations for what the program can achieve in its early stages. Doing so provides the program a better opportunity to take root and also sets a framework for how to evaluate the program moving forward. Even so, it should be accepted that there will need to be adjustments over time. But the more ongoing analysis that is done, and the more proactive the review of decisions made and results achieved by the program, the less such remaking of the case will seem a challenge to the program. Instead these activities can be viewed as, and serve the role of, making the program more effective and successful.

# Appendix A

## Estate Profile
### Richard Starkey (Deceased) and spouse Barbara Starkey (Deceased)
Charity: Auburn Historical Society (AUBURN)

***Donor :*** Mr. Richard Starkey (DOB 07/07/1940, DOD 10/01/2012)
100 Mulholland Drive
Los Angeles, CA 987622

Phone: 919-773-1288
SS Num: 748-30-9843

***Spouse:*** Mrs. Barbara Starkey (DOB 04/29/1942, DOD 10/01/2012)
100 Mulholland Drive
Los Angeles, CA 987622

Phone: 919-773-1288
SS Num: 664-47-7336

***Legacy Society Memberships:*** The Auburn Legacy Society,

***There is 1 bequest gifts with a total estimated distribution of $250,000.00***

Gift Key 3 -- Bequest Status: Partial Distribution

| | | | | | |
|---|---|---|---|---|---|
| Gift Date | 07/08/2009 | Gift Amount: | $250,000.00 | Account 1: | |
| Transfer Type: | Ben Desig | Gift Probability %: | 100% | Account 2: | |
| Restriction Type: | Pecuniary | Amount times % | [$250,000.00] | Account 3: | |
| Percentage of Estate: | 0% | Notification Date: | 10/16/2012 | Account 4: | |
| Bequest Asset: | Retirement Asset | Confidence Level: | Very Likely | Account 5: | |
| Asset Description: | 2 separate retirement accounts | | | Anonymous: | No |
| Date of Notice of Estate Filing: | 10/25/2012 | Bequest Known in Advance: | No | | |
| Estimated Close Date: | 12/31/2012 | Bequest Rejected: | No | | |
| Account Closed Date: | | | | | |

Gift Name : Starkey Bequest - to benefit Historical Preservation

| Distribution Date | Amount | Description |
|---|---|---|
| 10/29/2012 | $148,000.00 | Account ending in 4567 |
| Total Distributions: | $148,000.00 | |

Purpose: Preservation of historical buildings and furniture

*Contacts*

| Contact Date | Contact Description |
|---|---|
| 10/31/2012 | Received partial distribution.  Expecting final distribution before end of year. |
| 10/30/2012 | Bequest Status changed from In Process to Partial Distribution For Gift Key 3 |
| 10/30/2012 | Sent letter "Attorney_Confirmation" to Beverly Sternberg |
| 10/30/2012 | Bequest Status changed from Notification to In Process For Gift Key 3 |
| 10/17/2012 | Bequest Status changed from Intention to Notification For Gift Key 3 |
| 06/14/2012 | Saw Barbara and Richard at Spring fundraiser. |

*Estate Advisors*

| | | | |
|---|---|---|---|
| (EXECUTOR -Executor) | Mrs. Beverly Sternberg | | |
| | Sternberg, Sternberg and Dobbs | | |
| | 2452 Michigan Avenue | Phone: | 657-869-3900 |
| | Suite 4500 | Fax: | |
| | Chicago, IL 92713 | Email: | Sternbergb@SSD.com |

## Bequest Summary by Transfer Type

**Auburn Society (AUB)**

**Transfer Type: Beneficiary Designation**

| Gift Date | Gift Key | Asset/Type | Account #1 | Bequest Status | Notification Date | Gift Amount | Probability % | Amt * Probability |
|---|---|---|---|---|---|---|---|---|
| 12/1/2012 | 19 | Retirement Asset Pecuniary | abc | Notification | 12/10/2012 | $7,500.00 | 100.00 | 7,500.00 |

| Association | Name | SS Number | D.O.B. | Status | D.O.D | Person Key |
|---|---|---|---|---|---|---|
| Donor | David Hughes | 111-44-5555 | 7/12/1941 | Current | | 24 |

**Transfer Type: Beneficiary Designation**
**Number of Bequest Gifts:** 1
**Total Gift Amount:** $7,500.00
**Total Amt * Probability:** $7,500.00

**Transfer Type: Will**

| Gift Date | Gift Key | Asset/Type | Account #1 | Bequest Status | Notification Date | Gift Amount | Probability % | Amt * Probability |
|---|---|---|---|---|---|---|---|---|
| 5/20/1999 | 2 | Specific | | Intention | | $110,000.00 | 100.00 | 110,000.00 |

| Association | Name | SS Number | D.O.B. | Status | D.O.D | Person Key |
|---|---|---|---|---|---|---|
| Donor | Joseph Verdi | 123-23-4345 | 10/10/1929 | Current | | 3 |

| Gift Date | Gift Key | Asset/Type | Account #1 | Bequest Status | Notification Date | Gift Amount | Probability % | Amt * Probability |
|---|---|---|---|---|---|---|---|---|
| 6/25/2002 | 18 | Cash Pecuniary | | Notification | 8/12/2002 | $78,000.00 | 100.00 | 78,000.00 |

| Association | Name | SS Number | D.O.B. | Status | D.O.D | Person Key |
|---|---|---|---|---|---|---|
| Donor | Kurt Stevens | 330-99-8877 | 4/23/1924 | Current | | 23 |

| Gift Date | Gift Key | Asset/Type | Account #1 | Bequest Status | Notification Date | Gift Amount | Probability % | Amt * Probability |
|---|---|---|---|---|---|---|---|---|
| 5/4/2009 | 6 | Tangible Property Specific | | Intention | | $30,000.00 | 75.00 | 22,500.00 |

| Association | Name | SS Number | D.O.B. | Status | D.O.D | Person Key |
|---|---|---|---|---|---|---|
| Donor | Thomasina Edison | 738-93-7573 | 8/18/1932 | Current | | 10 |

| Gift Date | Gift Key | Asset/Type | Account #1 | Bequest Status | Notification Date | Gift Amount | Probability % | Amt * Probability |
|---|---|---|---|---|---|---|---|---|
| 8/9/2009 | 8 | Cash | | Intention | 9/6/2012 | $10,000.00 | 50.00 | 5,000.00 |

| Association | Name | SS Number | D.O.B. | Status | D.O.D | Person Key |
|---|---|---|---|---|---|---|
| Donor | Elizabeth Paternore | 484-84-8484 | 4/15/1924 | Current | | 13 |

| Gift Date | Gift Key | Asset/Type | Account #1 | Bequest Status | Notification Date | Gift Amount | Probability % | Amt * Probability |
|---|---|---|---|---|---|---|---|---|
| 4/25/2011 | 16 | Cash Pecuniary | | Intention | | $50,000.00 | 100.00 | 50,000.00 |

| Association | Name | SS Number | D.O.B. | Status | D.O.D | Person Key |
|---|---|---|---|---|---|---|
| Donor | Elizabeth Paternore | 484-84-8484 | 4/15/1924 | Current | | 13 |
| Donor | Andrew Paternore | 008-99-3445 | 10/7/1943 | Current | | 22 |

**Transfer Type: Will**
**Number of Bequest Gifts:** 5
**Total Gift Amount:** $278,000.00
**Total Amt * Probability:** $265,500.00

**Auburn Society (AUB)**
**Number of Bequest Gifts:** 6
**Total Gift Amount:** $285,500.00
**Total Amt * Probability:** $273,000.00

12/3/2012 Bequest Summary by Transfer Type 1

**Gift Type: BEQ**

Number of Gifts By Transfer Type:

| | |
|---|---|
| (All Transfer Types) | 15 |
| Transfer By Will: | 10 |
| Transfer By RLT: | 3 |
| Transfer By Ben Desig: | 2 |

Number of Gifts by Bequest Status:

| | |
|---|---|
| (All Bequest Statuses) | 16 |
| Beq Status Blank: | 1 |
| Beq Status Intention: | 4 |
| Beq Status Notification: | 0 |
| Beq Status In Process: | 1 |
| Beq Status In Probate: | 2 |
| Beq Status In Litigation: | 1 |
| Beq Status Partial Distribution: | 2 |
| Beq Status Full Distribution: | 5 |

Total Gift Amount for Gifts without Distributions:

| | |
|---|---|
| (All Gifts without Distributions) | $1,885,002.00 |
| Beq Status Blank: | $1.00 |
| Beq Status Intention: | $560,001.00 |
| Beq Status Notification: | $0.00 |
| Beq Status In Process: | $250,000.00 |
| Beq Status In Probate: | $750,000.00 |
| Beq Status In Litigation: | $325,000.00 |

Total [Gift Amount * Probability %] for Gifts Without Distributions:

| | |
|---|---|
| (All Gifts without Distributions) | $1,154,750.25 |
| Beq Status Blank: | $0.00 |
| Beq Status Intention: | $133,500.25 |
| Beq Status Notification: | $0.00 |
| Beq Status In Process: | $225,000.00 |
| Beq Status In Probate: | $487,500.00 |
| Beq Status In Litigation: | $308,750.00 |

Number of years (statistically) until bequest will be received

## Gift Expectancies/Term End as of 11/30/2012 based on the Ann 2000 Table

| Gift Date | Gift Type | Gift Key | Tot Gift Amount | Payout % | Account #1 | Account #2 | Gift Status | Market Value | Gift Exp/Term End |
|---|---|---|---|---|---|---|---|---|---|
| **Auburn Society (AUB)** | | | | | | | | | |
| 05/20/1999 | BEQ | 2 | $500,000.00 | 0.00000000 | | | Current | $0.00 | 8.7 |
| 05/04/2009 | BEQ | 6 | $1.00 | 0.00000000 | | | Current | $0.00 | 11.3 |
| 08/09/2009 | BEQ | 8 | $10,000.00 | 0.00000000 | | | Current | $0.00 | 9.5 |
| 04/25/2011 | BEQ | 16 | $50,000.00 | 0.00000000 | | | Current | $0.00 | 9.5 |
| 09/12/2012 | BEQ | 17 | $1.00 | 0.00000000 | | | Current | $0.00 | 9.5 |

| Gift Key | *Association* | *Name* | *D.O.B.* | *Status* | *D.O.D.* | *Age* | *Gender* | *Life Exp* | *Person Key* |
|---|---|---|---|---|---|---|---|---|---|
| 2 | Donor | Joseph Verdi | 10/10/1929 | Current | | 83 | M | 8.70 | 3 |
| 6 | Donor | Thomasina Edison | 08/18/1932 | Current | | 80 | F | 11.30 | 10 |
| 8 | Donor | Elizabeth Patermore | 04/15/1930 | Current | | 83 | F | 9.50 | 13 |
| 16 | Donor | Elizabeth Patermore | 04/15/1930 | Current | | 83 | F | 9.50 | 13 |
| 17 | Donor | Elizabeth Patermore | 04/15/1930 | Current | | 83 | F | 9.50 | 13 |

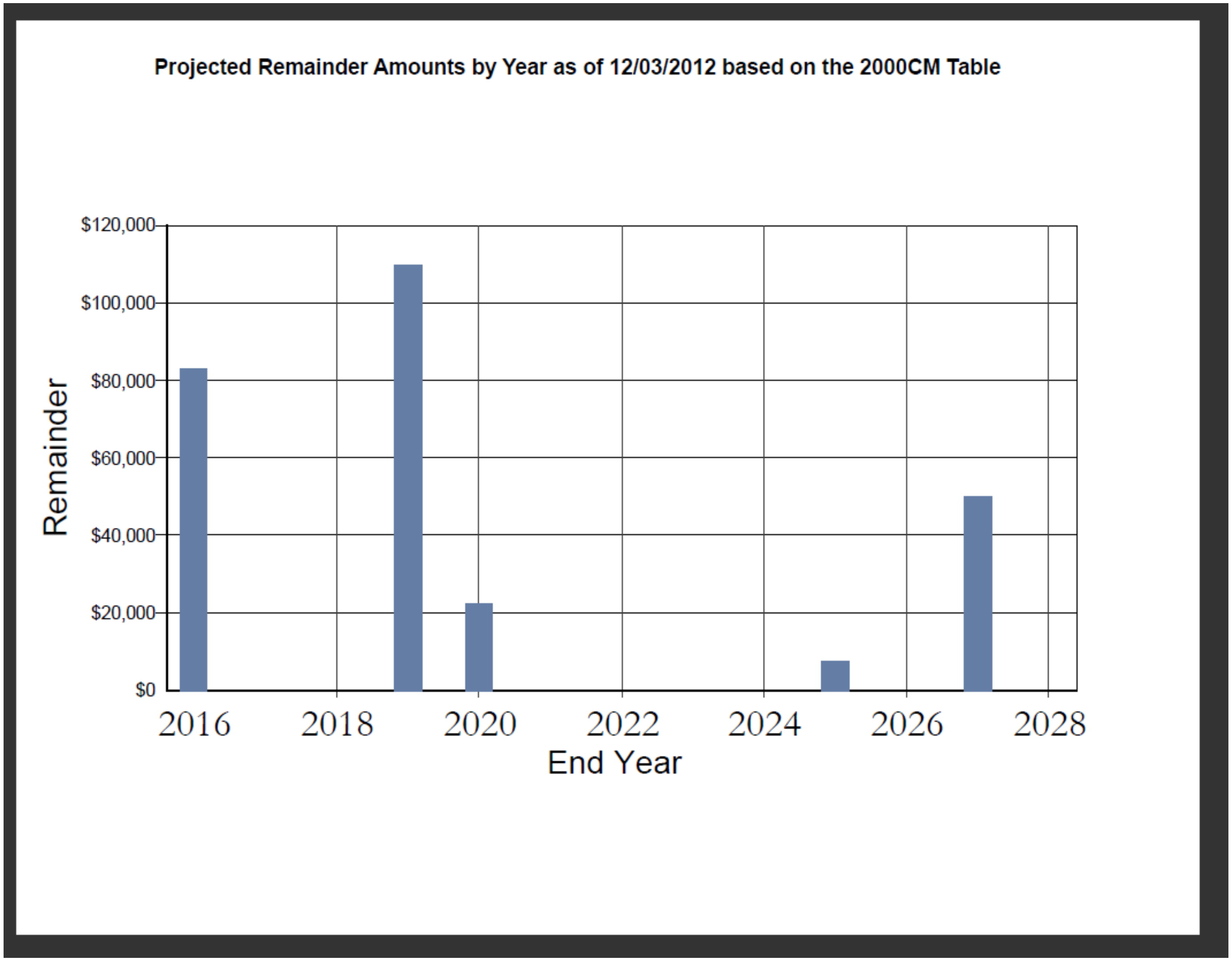
**Auburn Society (AUB)**

| | |
|---|---|
| Number of Gifts: | 5 |
| Average Gift Exp/Term End | 9.70 |
| Average Age: | 82 |
| Average Life Expectancy: | 9.7 |

**Grand Total**

| | |
|---|---|
| Number of Gifts: | 5 |
| Average Gift Exp/Term End | 9.70 |
| Average Age: | 82 |
| Average Life Expectancy: | 9.7 |

11/30/2012 Gift Expectancies/Term End 1




Bequest residua expected (statistically) by year

The projected value column appears in the graph

This is a detailed report of the data in the graph on the prior page.

## Projected Remainder Amounts by Year as of 12/03/2012 based on the 2000CM Table

| Year | Gift Type | Gift Key | Account #1 | Tot Gift Amount | Market Value | Projected Value | PV @ 2% | PV @ 4% |
|---|---|---|---|---|---|---|---|---|
| **Auburn Society (AUB)** | | | | | | | | |
| **12/4/2016 - 12/3/2017** | | | | | | | | |
| | BEQ | 8 | | $10,000.00 | N/A | $5,000.00 | $4,573.72 | $4,191.02 |
| | BEQ | 17 | | $1.00 | N/A | $0.00 | $0.00 | $0.00 |
| | BEQ | 18 | | $78,000.00 | N/A | $78,000.00 | $71,349.98 | $65,379.95 |
| | | | *BEQ Totals* | $88,001.00 | N/A | $83,000.00 | $75,923.69 | $69,570.97 |
| **12/4/2016 - 12/3/2017** | | | **Totals** | **$88,001.00** | **N/A** | **$83,000.00** | **$75,923.69** | **$69,570.97** |
| **12/4/2019 - 12/3/2020** | | | | | | | | |
| | BEQ | 2 | | $110,000.00 | N/A | $110,000.00 | $94,818.13 | $81,967.68 |
| | | | *BEQ Totals* | $110,000.00 | N/A | $110,000.00 | $94,818.13 | $81,967.68 |
| **12/4/2019 - 12/3/2020** | | | **Totals** | **$110,000.00** | **N/A** | **$110,000.00** | **$94,818.13** | **$81,967.68** |
| **12/4/2020 - 12/3/2021** | | | | | | | | |
| | BEQ | 6 | | $30,000.00 | N/A | $22,500.00 | $19,014.33 | $16,121.27 |
| | | | *BEQ Totals* | $30,000.00 | N/A | $22,500.00 | $19,014.33 | $16,121.27 |
| **12/4/2020 - 12/3/2021** | | | **Totals** | **$30,000.00** | **N/A** | **$22,500.00** | **$19,014.33** | **$16,121.27** |
| **12/4/2025 - 12/3/2026** | | | | | | | | |
| | BEQ | 19 | abc | $7,500.00 | N/A | $7,500.00 | $5,740.62 | $4,416.84 |
| | | | *BEQ Totals* | $7,500.00 | N/A | $7,500.00 | $5,740.62 | $4,416.84 |
| **12/4/2025 - 12/3/2026** | | | **Totals** | **$7,500.00** | **N/A** | **$7,500.00** | **$5,740.62** | **$4,416.84** |
| **12/4/2027 - 12/3/2028** | | | | | | | | |
| | BEQ | 16 | | $50,000.00 | N/A | $50,000.00 | $36,784.71 | $27,224.08 |
| | | | *BEQ Totals* | $50,000.00 | N/A | $50,000.00 | $36,784.71 | $27,224.08 |
| **12/4/2027 - 12/3/2028** | | | **Totals** | **$50,000.00** | **N/A** | **$50,000.00** | **$36,784.71** | **$27,224.08** |

| | | |
|---|---|---|
| **Auburn Society (AUB)** | **Total Gift Amount:** | $285,501.00 |
| | **Total Market Value:** | N/A |
| | **Total Projected Value:** | $273,000.00 |
| | **Total Present Value @ 2%** | $232,281.49 |
| | **Total Present Value @ 4%** | $199,300.83 |
| **Grand Total** | **Total Gift Amount:** | $285,501.00 |
| | **Total Market Value:** | N/A |
| | **Total Projected Value:** | $273,000.00 |
| | **Total Present Value @ 2%** | $232,281.49 |
| | **Total Present Value @ 4%** | $199,300.83 |

12/3/2012 Projected Remainder Amount by Year 1

## Projected Remainder Amounts as of 12/03/2012 based on the 2000CM Table

| Gift Type | Gift Key | Gift Date | First Pmt | Tot Gift Amount | Market Value | Gift Exp | Yrs to Exhaust | End Year | Remainder |
|---|---|---|---|---|---|---|---|---|---|
| **Auburn Society (AUB)** | | | | | | | | | |
| BEQ | 8 | 08/09/2009 | | $10,000.00 | N/A | 4.80 | N/A | 2016 | $5,000.00 |
| | *Name* | | *Association* | *D.O.B.* | *Age at Gift* | *Age at Val* | *Gender* | *Status* | |
| | Elizabeth Patermore | | Donor | 04/15/1924 | 85 | 89 | F | Current | |
| BEQ | 17 | 09/12/2012 | | $1.00 | N/A | 4.80 | N/A | 2016 | $0.00 |
| | *Name* | | *Association* | *D.O.B.* | *Age at Gift* | *Age at Val* | *Gender* | *Status* | |
| | Elizabeth Patermore | | Donor | 04/15/1924 | 88 | 89 | F | Current | |
| BEQ | 18 | 06/25/2002 | | $78,000.00 | N/A | 4.80 | N/A | 2016 | $78,000.00 |
| | *Name* | | *Association* | *D.O.B.* | *Age at Gift* | *Age at Val* | *Gender* | *Status* | |
| | Kurt Stevens | | Donor | 04/23/1924 | 78 | 89 | M | Current | |
| BEQ | 2 | 05/20/1999 | | $110,000.00 | N/A | 7.00 | N/A | 2019 | $110,000.00 |
| | *Name* | | *Association* | *D.O.B.* | *Age at Gift* | *Age at Val* | *Gender* | *Status* | |
| | Joseph Verdi | | Donor | 10/10/1929 | 70 | 83 | M | Current | |
| BEQ | 6 | 05/04/2009 | | $30,000.00 | N/A | 8.40 | N/A | 2020 | $22,500.00 |
| | *Name* | | *Association* | *D.O.B.* | *Age at Gift* | *Age at Val* | *Gender* | *Status* | |
| | Thomasina Edison | | Donor | 08/18/1932 | 77 | 80 | F | Current | |
| BEQ | 19 | 12/01/2012 | | $7,500.00 | N/A | 13.60 | N/A | 2025 | $7,500.00 |
| | *Name* | | *Association* | *D.O.B.* | *Age at Gift* | *Age at Val* | *Gender* | *Status* | |
| | David Hughes | | Donor | 07/12/1941 | 71 | 71 | M | Current | |
| BEQ | 16 | 04/25/2011 | | $50,000.00 | N/A | 15.40 | N/A | 2027 | $50,000.00 |
| | *Name* | | *Association* | *D.O.B.* | *Age at Gift* | *Age at Val* | *Gender* | *Status* | |
| | Elizabeth Patermore | | Donor | 04/15/1924 | 87 | 89 | F | Current | |
| | Andrew Patermore | | Donor | 10/07/1943 | 68 | 69 | M | Current | |

| | | |
|---|---|---|
| **Auburn Society (AUB)** | **Total Gift Amount:** | $285,501.00 |
| | **Total Market Value:** | N/A |
| | **Total Remainder:** | $273,000.00 |
| **Grand Total** | **Total Gift Amount:** | $285,501.00 |
| | **Total Market Value:** | N/A |
| | **Total Remainder:** | $273,000.00 |

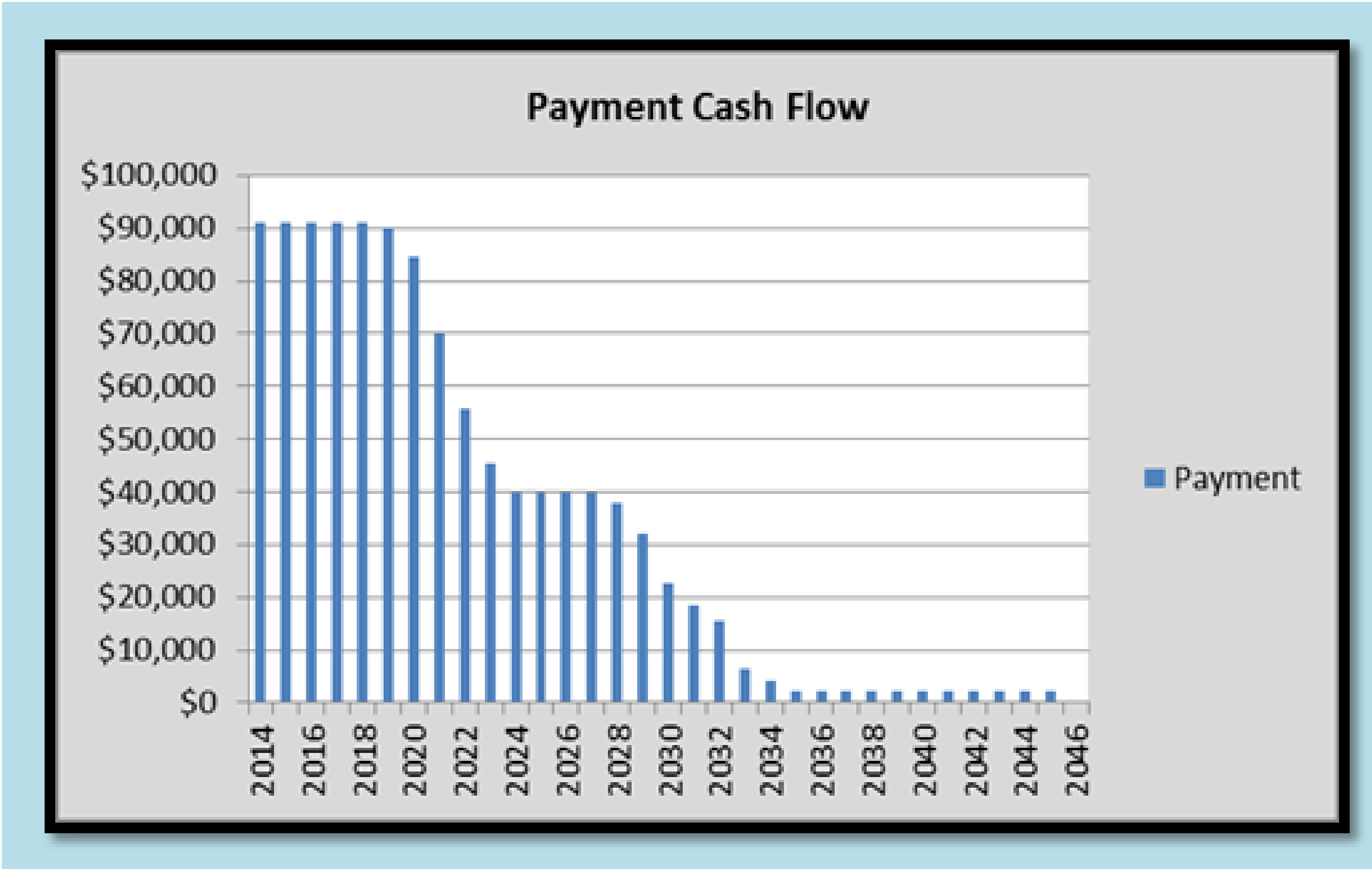
12/3/2012 Projected Remainder Amounts 1

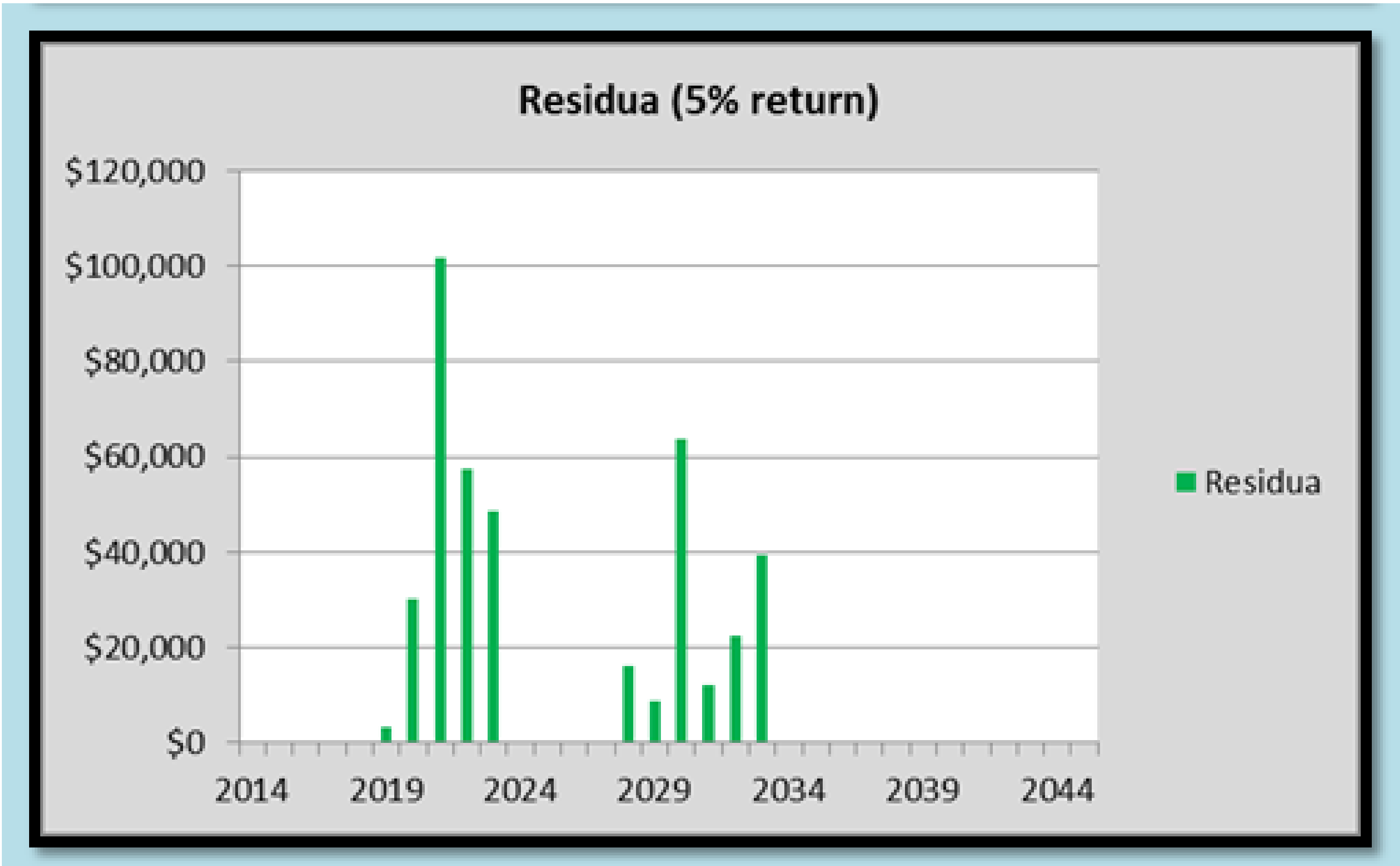
Same data as on prior page, represented by gift rather than by year.

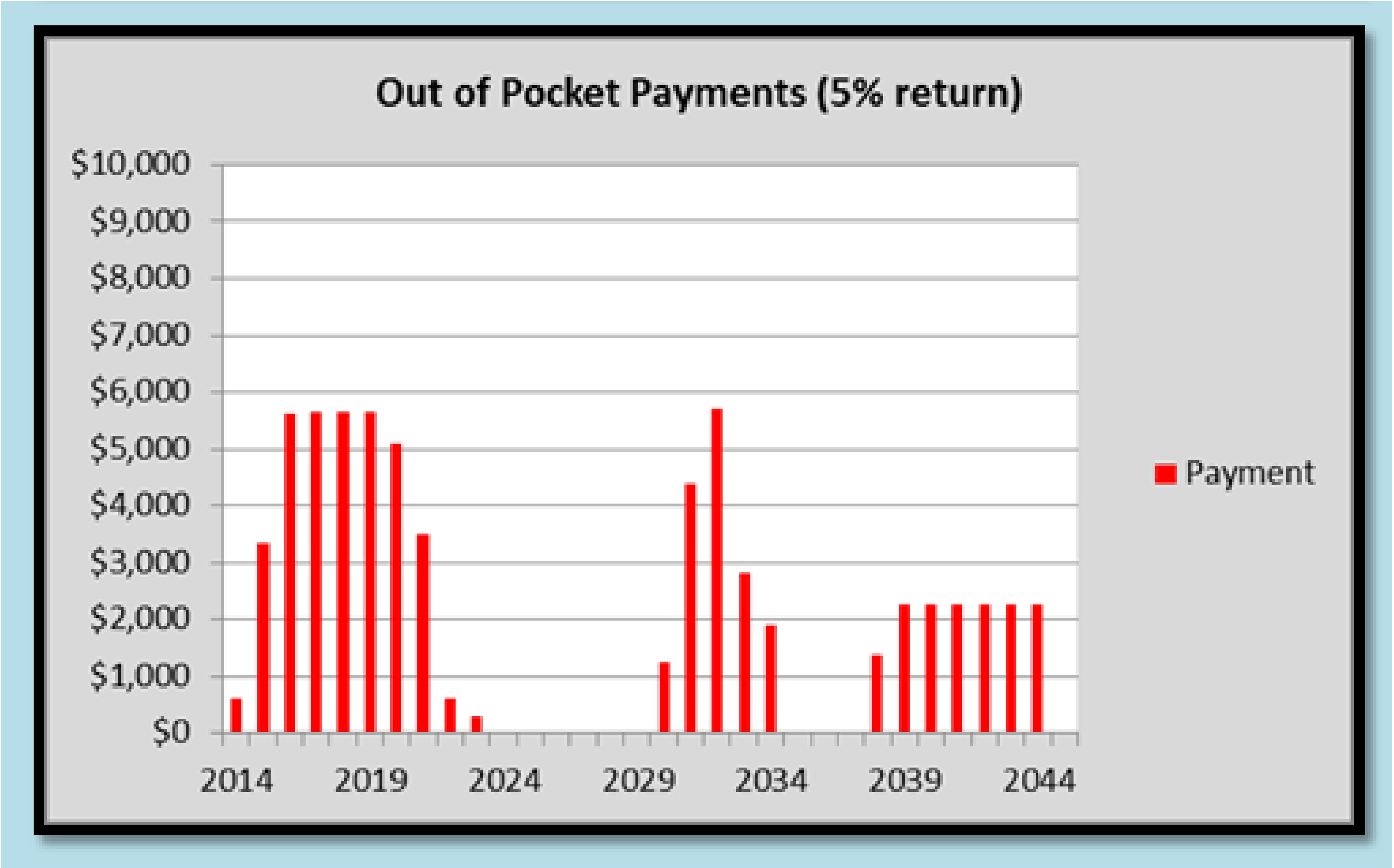
# Appendix B

## Projected Remainder Amounts as of 12/09/2014 based on the Ann 2000 Table

| Gift Type | Gift Key | Gift/Int Date | First Pmt | Tot Gift/Int Amount | Market Value | Gift Exp | Yrs to Exhaust | End Year | Remainder |
|---|---|---|---|---|---|---|---|---|---|
| **Metro Hospital Foundation (METRO)** | | | | | | | | | |
| CGA | 47 | 12/20/1999 | 12/31/1999 | $5,000.00 | 108,244.16 | 6.50 | NA | 2020 | $134,539.97 |
| | *Name* | | *Association* | *D.O.B.* | *Age at Gift* | *Age at Val* | *Gender* | *Status* | *Person Code 1* |
| | Christian Feldstrom | | Bene-A | 06/28/1926 | 73 | 88 | M | Current | |
| CGA | 52 | 02/21/2002 | 03/31/2002 | $27,000.00 | 25,438.39 | 6.90 | 16.5 | 2020 | $18,192.23 |
| | *Name* | | *Association* | *D.O.B.* | *Age at Gift* | *Age at Val* | *Gender* | *Status* | *Person Code 1* |
| | Marina Manatee | | Donor/Bene-A | 09/03/1926 | 75 | 88 | F | Current | |
| CGA | 76 | 12/30/2004 | 12/31/2013 | $50,000.00 | 340,875.95 | 6.50 | NA | 2020 | $402,033.43 |
| | *Name* | | *Association* | *D.O.B.* | *Age at Gift* | *Age at Val* | *Gender* | *Status* | *Person Code 1* |
| | Christian Feldstrom | | Bene-A | 06/28/1926 | 79 | 88 | M | Current | |
| CGA | 4 | 04/30/1995 | 06/30/1995 | $25,000.00 | 200,648.37 | 9.50 | NA | 2023 | $267,683.55 |
| | *Name* | | *Association* | *D.O.B.* | *Age at Gift* | *Age at Val* | *Gender* | *Status* | *Person Code 1* |
| | Cassandra C. Cheetah | | Bene-A | 04/06/1932 | 63 | 83 | F | Current | |
| CGA | 77 | 12/30/2006 | 12/31/2006 | $25,000.00 | 233,317.85 | 9.50 | NA | 2023 | $309,260.56 |
| | *Name* | | *Association* | *D.O.B.* | *Age at Gift* | *Age at Val* | *Gender* | *Status* | *Person Code 1* |
| | Christine Flox | | Bene-A | 02/02/1932 | 75 | 83 | F | Current | |
| **Metro Hospital Foundation (METRO)** | | | | | | | **Total Gift/Int Amount:** | | $132,000.00 |
| | | | | | | | **Total Market Value:** | | $908,524.72 |
| | | | | | | | **Total Remainder:** | | $1,131,709.74 |
| **Grand Total** | | | | | | | **Total Gift/Int Amount:** | | $132,000.00 |
| | | | | | | | **Total Market Value:** | | 908,524.72 |
| | | | | | | | **Total Remainder:** | | $1,131,709.74 |


Payment Cash Flow
$100,000
$90,000
$80,000
$70,000
$60,000
$50,000
$40,000
$30,000
$20,000
$10,000
$0
2014
2016
2018
2020
2022
2024
2026
2028
2030
2032
2034
2036
2038
2040
2042
2044
2046
Payment


Residua (5% return)
$120,000
$100,000
$80,000
$60,000
$40,000
$20,000
$0
2014
2019
2024
2029
2034
2039
2044
Residua


Out of Pocket Payments (5% return)
$10,000
$9,000
$8,000
$7,000
$6,000
$5,000
$4,000
$3,000
$2,000
$1,000
$0
2014
2019
2024
2029
2034
2039
2044
Payment

# Appendix C

## Evaluating a Gift Annuity Program

The CFO of a national charity remarked that she had no idea whether her organization's gift annuity program was profitable. No doubt, many other charities have never quantitatively assessed their programs and considered ways to make them more productive. This section describes the procedures for evaluating a program and then lists reasons why it might be underperforming.

### Measuring the Profit of a Gift Annuity Program

The simplest formula for determining the profit of a gift annuity program is:

$P = D - E$, where

P is profit,

D is the total of all distributions (also known as "residua") received from matured gift annuities and expected from existing gift annuities, and

E is total expenses other than those paid from gift annuity reserves.

If the charity has kept good records, past distributions are easily determinable. They would include transfers of residua when payment obligations terminated, any amounts expended for charitable purposes at the time gift annuities were established, and withdrawals from the gift annuity reserve fund not associated with the termination of obligations. The totality of all past distributions will be referred to as $D_p$.

It is, of course, impossible to know future distributions, but they can be approximated through the methodologies described below. All future distributions will be referred to as $D_f$.

Most charities charge the direct costs of investing reserves and administering gift annuities to the gift annuity reserve fund. For example, if the charity outsources investment and management responsibilities to a vendor, the annual charge may be in the range of one percent of the market value of reserves. If this expense is deducted from gift annuity reserves, the net return on the investment of those reserves will be lower, and distributions for charitable purposes will consequently be reduced.

In determining the profit of the program, only expenses paid by the charity from funds other than gift annuity reserves would constitute "E" in the formula. There could be three categories of such expenses:

- First, the fees paid for state registrations, actuarial services, and filing annual state reports.
- Second, marketing expenses including collateral material and travel expenses in connection with donor visits.
- Third, indirect costs, which might be a percentage of salaries and office expenses of staff who spend time on the gift annuity program.

While definite numbers are available for the first category of expenses, the next two categories pose a challenge. Marketing materials and donor calls often deal with a variety of giving instruments, so it is difficult to isolate the portion that applies to gift annuities. The same is true of staff time. Also, the charity might employ the same number of gift planning staff even if it discontinued offering gift annuities.

Although a considerable amount of subjectivity would be involved, it is possible to apportion some of the second and third category of expenses to the gift annuity program. However, in fairness, one should add to gift annuity distributions other types of gifts that have been stimulated by the gift annuity program. For instance, individuals who establish gift annuities sometimes develop a closer relationship with the charity, which results in increasing their annual giving and/or including the charity in their estate plan. Also, a visit with the intention of discussing a gift annuity with a person who responded to a gift annuity target mailing might morph into a discussion of a different, and perhaps larger, gift instrument such as a charitable remainder trust.

Because it is so difficult to quantify all of these things, and because it is known that a gift annuity program both carries a cost and has corollary benefits, it will be assumed that these added benefits are roughly equal to added institutional costs for marketing and overhead. Therefore, in calculating the profit of the program, it is best to factor into the formula only those direct administrative expenses that are not deducted from the gift annuity reserve fund.

Hence, the expanded formula would be:

$P = (D_p + D_f) - E$, where

$P$ is profit,

$D_p$ is the total of all past distributions,

$D_f$ is the total of projected future distributions, and

$E$ is the total of direct administrative expenses, past and projected, paid from general institutional funds and not deducted from gift annuity reserves.

## Projecting Distributions from Existing Gift Annuities

As noted, the value of $D_f$ (future distributions) cannot be known, but it can be approximated to the degree necessary to determine the likely profitability of the gift annuity program, not taking into consideration new gift annuities that may be established. There are two methodologies for projecting future distributions. One will be referred to as the "constant-net-return model," and the other the "Monte Carlo model." Each will be discussed in turn.

### *Constant-Net-Return Model*

This model assumes that the charity earns a fixed constant net return on gift annuity reserves until the annuity terminates. It further assumes that every annuitant lives to the end of life expectancy, determined as of the date the analysis is done.

By way of example, at the time a hypothetical annuity was established, the annuitant's life expectancy was 14.0 years. Five years later the gift annuity program is audited, and at that time, per the mortality tables, the life expectancy of the annuitant is 10.1 years. The life expectancy used in the analysis would indeed be 10.1, not 9.0 years (life expectancy at the time of the gift minus the 5.0 years the annuitant has already lived).

When doing the analysis, one must determine which mortality tables to use. One possibility is to use the Annuity 2000 Tables. However, that may understate life expectancies. The ACGA, based on mortality research it conducted, concluded that life expectancies of annuitants of gift annuities are longer than those in the Annuity 2000 tables. That is why it makes adjustments to those tables by assuming all annuitants are female, setting their ages back one year and projecting for improved mortality since the tables were published.

It is also necessary to choose the assumed constant net returns for the calculations. It is advisable to choose at least three constant net returns for purposes of comparison, and the selection should take into consideration historical returns on a portfolio such as the charity's and also current returns on such a portfolio. For example, the calculations might be done assuming constant net returns of three, four, and five percent. When choosing the assumed returns, one must keep in mind that the gross returns will be these net returns increased by whatever is being paid from gift annuity reserves for investment and administrative services. If the charity is outsourcing investment and administration to a vendor that charges one percent of the market value of gift annuity reserves, the gross returns would have to be four, five, and six percent, respectively.

### *Problems with the Constant-Net-Return Model*

There are three problems with the constant-net-return model.

1. The future average net return cannot be known. During the 1990s, it was not uncommon for a charity to realize average returns of nine or ten percent, especially if equities comprised a significant percentage of the portfolio. However, in recent years, average returns have often been four percent or less, and sometimes even negative.

2. Returns will not be constant, and the timing of returns affects outcomes, as evidenced by a hypothetical example of three annuities funded with identical amounts, each lasting 10 years, and each having an average return on reserves of six percent. The first annuity sustains investment losses the first two years followed by very good returns during the latter part of the period. The second has excellent returns in the early years but some losses late in the period. The third has constant returns. The first annuity will have the smallest residuum, the second annuity the largest, and the third will be between the others.

3. Some annuitants die before their actuarial life expectancy and some after.

Despite these inherent problems, the constant-net-return model does show approximate outcomes if certain assumptions hold true. Thus, it is helpful in identifying problematic annuities and revealing to a charity the financial health and overall profitability of its gift annuity program.

## *Monte Carlo Model*

Instead of assuming a fixed return each year, a Monte Carlo program randomly generates returns to simulate performance under historically representative conditions, and it overlays these returns with randomly-generated life spans. For any given annuity, it may run a thousand trials, each having a different date of death and different return on the various classes of assets that comprise the portfolio of the gift annuity reserves. It is possible to enter into the program the percentages of the total portfolio consisting of different categories of equities and bonds as well as the percentage held in cash or cash equivalents. An expense percentage can also be entered.

The program will show the percentage probability that the residuum from a gift annuity will be "x" amount or higher. For example, it can be demonstrated that, based on the information entered, there will be a 25-percent chance that the residuum of an annuity will be $90,000 or greater, a 50-percent chance that it will be $70,000 or greater, and a 75-percent chance that it will be $30,000 or greater, etc.

### *Problems with the Monte Carlo Model*

Like the constant-net-return model, the Monte Carlo model has problems and limitations.

1. The random returns built into the program might prove unrealistically high or low if financial markets over the next two or three decades perform below or above historic average.

2. The Monte Carlo model provides less precise information to charities that want to plan for future cash flow.

## *The Value of Using Both Models*

To the extent the two models produce similar projections, a charity can evaluate its program and plan for the future with more assurance. It is interesting to note that in most cases where negative residua are projected by the constant-net-return model, the Monte Carlo program shows that there is a 50-percent probability of negative residua. This would be a powerful indicator that these annuities are at risk. For healthier annuities as well, it makes sense to compare outcomes and compute profitability both ways. The charity will have a better idea of whether the program is producing the desired results.

## Why Gift Annuity Programs Underperform

Unfortunately, there are a number of gift annuity programs that underperform. Not only is their profit margin narrow, but they have numerous annuities at risk of exhaustion. That is, the reserves may be entirely consumed before the payment obligation terminates, and they may have to transfer unrestricted institutional funds to continue payments. One or more of the following factors could have caused this situation.

1. The gift annuity rates offered by the charity were too high. Possibly the charity, in an effort to gain a competitive advantage, exceeded the rates suggested by the ACGA. In retrospect, possibly the ACGA rates themselves were a little higher than they should have been at certain times.

2. The combined investment and administrative expenses charged to the gift annuity reserve fund(s) were higher than the assumed expenses on which the ACGA rates were based. For example, a charity might be paying a financial institution 90 basis points for investment and administration and also be debiting from the reserves another 100 basis points for internal costs in connection with gift annuities. An internal fee is more common among community foundations and national organizations that issue gift annuities for the benefit of affiliates. The ACGA rates assume expenses of 100 basis points per year, and if a charity's total expenses charged to reserves total 190 basis points, its residua will average less than the ACGA target of 50 percent unless its total return exceeds the assumed return underlying the ACGA rates.

3. The charity spent some portion of the contribution up front and invested the balance in the reserve fund. The residua of gift annuities will be less likely to average 50 percent unless the entire contribution is added to the reserves and nothing is withdrawn until the termination of the obligation.

4. The gift annuity reserves sustained significant investment losses. This is, of course, the number one reason why so many gift annuities are now at risk. A significant percentage of reserves – perhaps as much as 60 or 70 percent – may have been invested in equities, causing the reserve fund to lose upwards of 25 to 35 percent of its value, first in the period 2001-2003, and especially in 2008 and early 2009.

5. The annuitants of a particular charity lived well beyond the life expectancies on which the gift annuity rates were based. This is not likely unless the charity has a small number of annuities. Usually, a charity is far more affected by investment losses than by mortality variations.

6. The charity did not market gift annuities effectively. Consequently, the size of the gift annuity pool is too small to achieve economies of scale.