BUILDING AND MAINTAINING THE BEQUEST GIFTS PIPELINE

PG CALC WEBINAR

NOVEMBER 14, 2018

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Overview

Building and maintaining the testamentary gifts pipeline is critically important for all publicly-supported charitable organizations because philanthropic support from individuals either is or will provide an increasing percentage of the annual operating budget. Many organizations are experiencing changes in the amount of revenue being received from government funding, community-chest funding, and special events and need to find alternate sources of revenue.
A pipeline of known (and unknown) future gifts from testamentary distributions can be an important alternate source of future funding, either from outright testamentary gifts for designated purposes, or from testamentary gifts that add to existing endowments or create new endowments that will provide annual revenue.

It can take 10 to 20 years to build a mature gift planning/planned giving program that produces annual, but varying, amounts of gift revenue. Mature gift planning/planned giving programs can produce more average annual gift revenue from testamentary distributions than produced from annual giving programs.

Successfully building and maintaining a testamentary gifts pipeline requires attention to Developing the Case for Support, Policy Decisions, Identification of Likely Donors, Educational Methodology, Making the Ask, Celebrating and Maintaining Gifts in the Pipeline, Staying Visible to Maintain Budget Support, and Monitoring Probate and Non-Probate Distribution of Gifts.

Developing the Case for Support

One of the most frequently asked questions from individuals asked to make a future or testamentary gift is why does the organization need the gift? Donors want to know what difference their gift will make and how the gift will be used by the organization to further the mission when received. In her pioneering demographic work, Dr. Judith Nichols found that while the World War II generation had great faith in societal institutions, including large charitable organizations, their baby boomer children do not feel the same about institutions, and are much more likely to support specific projects and programs of charitable organizations.

So, the desire (demand?) of testamentary gift donors to know specifically how a testamentary gift will be used by the recipient charitable organization and to design the gift to ensure this use is the reality. Frankly, many charitable organizations cannot answer this question in ways that motivate real people to make testamentary gifts. Fewer and fewer people want to help organizations continue to operate in Athe black@ or balance annual budgets.

Developing a motivating case for future support is a project that must include the serious involvement of both the governing board and the staff. It's hard enough to get governing boards to do strategic planning for 3 to 5-year periods, but they *must* address the likely future needs of the organization to answer, "why do you need my bequest or estate gift?"

Successful testamentary giving programs clearly and concisely communicate why these gifts are so important to the viability of charitable organizations. It is not unusual for organizations to assume that all board and staff members either know and can articulate the need for testamentary gifts or will" figure out" the case for support by osmosis after a certain amount of tenure with the organization. With the relatively short tenure of many development staff members, this approach is certainly risky.

To determine whether an organization can clearly and concisely communicate why these gifts are so important, ask each board member and key staff member how he or she would answer these questions: "Why does the organization need my bequest? What impact would my bequest have on the organization when received?" If all you get are blank stares, or a variety of answers with no general agreement, then the organization needs to review its case for support and come to consensus.

Engaging the board in a visioning process is one way to get started.

In a special meeting of the governing board and key staff, develop consensus on the fundamental mission of the organization, the ask why it exists, not how it provides the services that accomplish the mission. Then ask how environmental factors/demographic trends in the next 30 years will affect the fundamental mission and delivery systems. Will the fundamental mission still be needed? How will the delivery systems of the organization change 10 years from now? 20 years from now? 30 years from now? How will these changes in delivery systems impact the operating budget of the organization? Develop consensus around the answer to this question: Ten years from now our organization must provide what delivery systems to accomplish our mission? Twenty years from now? Thirty years from now?

Another way to approach this is to ask the group to list all the services, impact or accomplishments the organization would like to achieve if there were no budget restraints. This blue-sky approach can be a wonderful way to get out of the "we can only do what our budget allows us to do" mindset and into the "what do we really want to be and who can help us get there mindset."

Organizations with a one-person development staff or a small development staff frequently find it difficult to make building the testamentary gifts pipeline a development priority because the sense of urgency or deadlines common to annual giving and special events efforts are missing. Consider setting goals and timetables to increase staff and board focus on the effort. Some successful strategies have included 1) setting a goal to increase the number of members in the testamentary giving society (Heritage Society) by a particular date (Stanford University and The University of Texas at Austin were successful in more than doubling the number of testamentary gift commitments in their recent multi-billion dollar campaigns), and 2) setting a goal to increase the total dollar value of all endowments benefiting the organization to $XX by a particular date.

Policy Decisions

After coming to consensus about the need for a future stream of revenue from testamentary gift distributions, the organization needs to consider a number of policy matters regarding how revocable and irrevocable gifts will be valued, counted and documented.

The National Committee on Planned Giving, now the National Association of Charitable Gift Planners, issued **Valuation Standards for Charitable Planned Gifts** in 2004 and **Guidelines for Reporting and Counting Charitable Gifts, 2nd Edition,** in 2008, which have been recognized as best practices. The Association of Fundraising Professionals endorsed the NCPG's "Guidelines for Reporting and Counting Charitable Gifts" in 2007 and the Council for Advancement and Support of Education's 2008 revisions to its "Management and Reporting Standards" were consistent with the NCPG's "Guidelines."

The **Guidelines for Reporting and Counting Charitable Gifts, 2nd Edition,** recommends that fund raising efforts/campaigns include 3 complementary goals:

1. **An outright goal** for gifts that are usable or will become usable for institutional purposes during the campaign period (whether one or more years).
2. **Irrevocable deferred gift goals**, for gifts committed during the campaign period but usable by the organization at some point after the end of the campaign period.
3. **Revocable gift goals** for gifts solicited and committed or pledged during the campaign period but in which the donor retains the right to change the commitment and/or beneficiary.

The Guidelines also recommend that new gifts be reported in each category at full face value and not at discounted present value. So for irrevocable deferred gifts, the fair market value of the assets given to fund the deferred gift (charitable gift annuities, charitable remainder trusts, pooled income funds, charitable lead trusts) would be the dollar value used for counting.

With revocable gifts, an estimated dollar value is usually provided by the donor at the time the gift commitment is made. Organizations must determine what type of documentation is needed from the donor in order to feel comfortable using the estimate of value provided by the donor. Common practice includes a written statement from the donor that a future gift commitment exists, including the estimate of value and purpose of the future gift. A testamentary letter of intent or gift commitment document can be provided by the charitable organization for execution by the donor. Today many organizations will also accept an e-mail communication that includes confirmation that a future gift commitment has been made with an estimate of value as qualifying for counting in the revocable gifts goal total.

Each organization must determine what value will be included in the revocable gifts goal total when the donor does not provide an estimated dollar value of the future gift commitment. Three alternatives are in common use:

1. $0 value is counted in the revocable gifts goal total with the gift counted in the number of new revocable gift commitments made during the campaign period;
2. $1 value is counted in the revocable gifts goal total with the gift counted in the number of new revocable gift commitments made during the campaign period. Some development data bases do not allow for $0 gifts to be entered in the data base, so $1 is used in order to record that the gift is in place;
3. An average of the value of the smallest testamentary gift distributions received during a number of prior years is counted in the revocable gifts goal total with the gift counted in the number of new revocable gift commitments made during the campaign period. This may

result in a $10,000, $25,000 or $50,000 value being assigned to each documented future gift commitment when the donor does not provide an estimated value.

The organization must also determine which staff position(s) are charged with monitoring the distribution of probate and non-probate gifts, have authority to accept testamentary distributions and execute receipt of distributions, may seek court interpretation on behalf of the organization when interpretation of documents is needed or changes requested, and may authorize legal counsel to file or respond to suit on behalf of the organization.

Identification of Likely Donors
A number of studies provide guidance on individuals likely to make testamentary gift commitments to charitable organizations, including:

- Indiana University Center on Philanthropy study – now the Lilly Family School of Philanthropy – indicated that Americans most likely to have one or more testamentary gift provisions for charity were ages 40-60 with an advanced degree or an undergraduate degree
- Another study indicated that 25% of those 65 years old and older said that they would consider a testamentary gift to charity
- Other studies have indicated that the arrival of one or more grandchildren changes estate planning priorities
- Dr. Russell James of Texas Tech University analyzed a 20-year longitudinal study and found that:
    - The strongest predictor of adding a charitable gift to a testamentary plan is being in the final years of life.
    - Other strong predictors include:

      Mortality –related events
        - Increased mortality (decline in self-reported health status)
        - Diagnosis of cancer, stroke, or heart problems

      Change in Family Structure
        - Becoming a widow or widower or leaving a marriage
        - Having a first grandchild

      But, mortality-related events and change in family structure also drive deleting charitable gifts from testamentary plans

  Take-away: keep asking older donors and volunteers to make a testamentary gift even if their annual giving has changed

    - Strongest indicator of likelihood of making a gift of assets (as opposed to income) to charity after death is regularity of giving plus volunteering, followed closely by regularity of giving
    - Affinity an important factor – volunteer groups, advisory councils, grateful patients, community members, alumni

Educational Methodology
The biggest challenge to adding new testamentary gift commitments to the testamentary gifts pipeline continues to be that over 50% of Americans don't have a will or estate plan. Education/marketing must start here and continue to hammer away at what happens under state law without a will and/or beneficiary designations.

Ways to communicate with likely donors about the need for testamentary gifts and the many ways that such gifts can be structured include:

- Publications and printed materials – move away from newsletters to shorter, more concise pieces to most loyal donors
- A Blackbaud study found that baby boomers – the largest group of current givers to charity – prefer e-mail marketing
- Age-segmented e-mail marketing has been successful for many colleges and universities, resulting in more traffic to websites and more donors calling with questions after reviewing web site information
- Phone calls to loyal donor segments to discover gifts in place or interest in learning more about life income and/or testamentary gifts
- Donor stories about gift motivations, gift decision process, gift option, desired impact through in-person testimonials, stories in publications, and videos
- Social media marketing – give through will, name us as a beneficiary, get a life income, loan us assets, could all be options in the "Make a Gift" section

Making the Ask
Of course, new testamentary gift commitments are not made if individuals are not asked to do so. Many members of the organization, including staff and volunteers, should be expected to encourage new documented testamentary gift commitments, including:

- President/CEO
- Current and former Board Chairs
- Current and former Board members
- Testamentary gift donors/members of Heritage Society
- All development personnel should be empowered to encourage bequests and beneficiary designations

Training on making the ask and how testamentary gifts can be made is essential to increasing the number of staff and volunteers who will enthusiastically encourage and close such gifts.

Celebrating and Maintaining Gifts in the Pipeline
Maintaining testamentary gifts in the pipeline requires ongoing and deliberate stewardship efforts, including:

- Donor recognition society - purposes?
  Celebrate intent/desire to make a future gift
  Communicate the impact previously received gifts have made at the organization
    What documentation is required for membership
    What are the membership benefits, both tangible and intangible
- Stewardship schedule with assignment of stewardship responsibility – staff and volunteers, including governing board
- Annual contact expectation and tracking
- Regular reports to staff, facility and program managers, about gifts in the pipeline and likely future distributions to garner and maintain their enthusiasm and support for the future gifts effort and budget allocation

Staying Visible to Maintain Budget Support
Ongoing budget support to build and maintain a pipeline of testamentary gifts is critical to the success of these efforts, so it is important to demonstrate momentum to the organization's governing board and/or finance committee. Since much of the revenue from the new gift commitments won't be received until future years, board members can conclude that the annual budget investment is not generating sufficient revenue. Focusing on the investment and resulting commitments over a 3, 5, and 10-year period can move the evaluation away from a purely bottom-line analysis of dollars received annually.

Ways to demonstrate momentum include:

- Board/staff is notified of new testamentary gift commitments (other than anonymous) with assignment to send note or e-mail of thanks
- Board members are Involved in donor identification and solicitations
- A periodic (at least annual) pipeline report of known future gifts – type of gift, total # and $ amount – is distributed showing changes from prior year
- A report of the # and $ amount of testamentary gift distributions received during the fiscal year, the last 3 years, the last 5 years, the last 10 years, during the lifetime of such receipts is distributed annually
- Mature programs with regular annual distributions from the pipeline may project the total dollar amount of likely distributions in future 5-year segments

Monitoring Probate and Non-Probate Distribution of Gifts
Every charitable organization needs to assign responsibility for monitoring the distribution of probate and non-probate gift distributions to one or more staff positions or hire outside assistance to perform these functions. The organization's policies must authorize one or more staff positions or agents to accept and acknowledge receipt of distributions and to act on behalf of the organization when official action is needed to protect or defend the best interests of the organization.

Procedures should be established to assure that testamentary gifts are being received in timely manner according to the state law that governs probate and non-probate processes and distributions. Such procedures should include regular audits of testamentary gift documents and distributions to assure that gifts are credited to correct accounts and used as the donor intended.

The next wave of testamentary gift distributions will be from members of the baby boomer generation. Keep in mind that the average baby boomer has more assets in non-probate assets that pass outside the will and/or trust - life insurance proceeds, retirement plan and IRA balances, jointly owned property, bank and brokerage accounts – than will be distributed through the probate process.

Receiving life insurance proceeds and balances in bank and brokerage accounts can be fairly simple and quick. Receiving gifts from IRAs and retirement plans can be problematic because many custodians are treating these like assets inherited by surviving individuals instead of by charitable organizations.