PG Calc

YOUR PARTNER IN PLANNED GIVING SUCCESS

Blended Gifts and Collegial Cooperation

Date: December 17, 2020

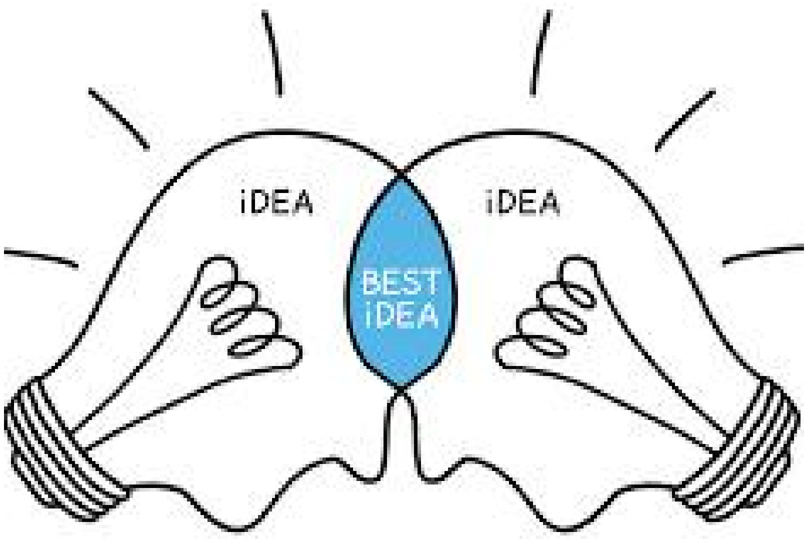
Time: 1:00 – 2:30 Eastern

Presenter: Jeff Lydenberg
Vice President

Agenda

- Building planned and outright giving collaboration
  - ✓ Planned and outright giving correlation
  - ✓ Infrastructure to support collaboration
  - ✓ The blended ask
- Blended gift solutions
  - ✓ Blending bequests
  - ✓ Lead trusts for now gifts
  - ✓ Life income in the blended gift
  - ✓ Endowments and gifts of assets

Building Collaboration



- Pressure to raise now money
- Planned gifts mean no money until death
- Correlate planned and outright giving
- Blended gifts put more money on the table, now!

Building Collaboration

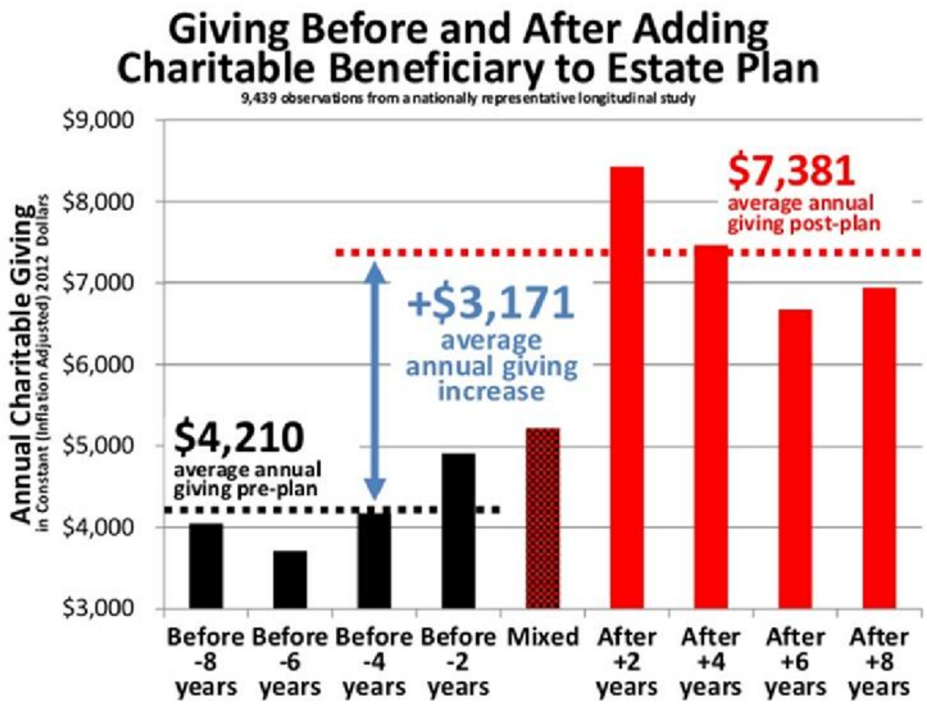
- Planned giving not either/or proposition
  - ✓ Not a zero-sum game
- Strategy to enhance annual, planned, and major gifts
- Major/planned gift combinations yield largest gift
- Wealth is in assets, not cash

Building Collaboration

- Principal and major gifts account for most dollars raised
- Cyclical nature of realized planned gifts
- Planned gifts are typically less than outright gifts
- Combining both revenue streams maximizes giving

Building Collaboration

- If planned giving is on the table, will donor make smaller lifetime gifts?
- HRS Study
- Average contribution pre-planned gift $4,210
- Average contribution post-planned gift $7,381

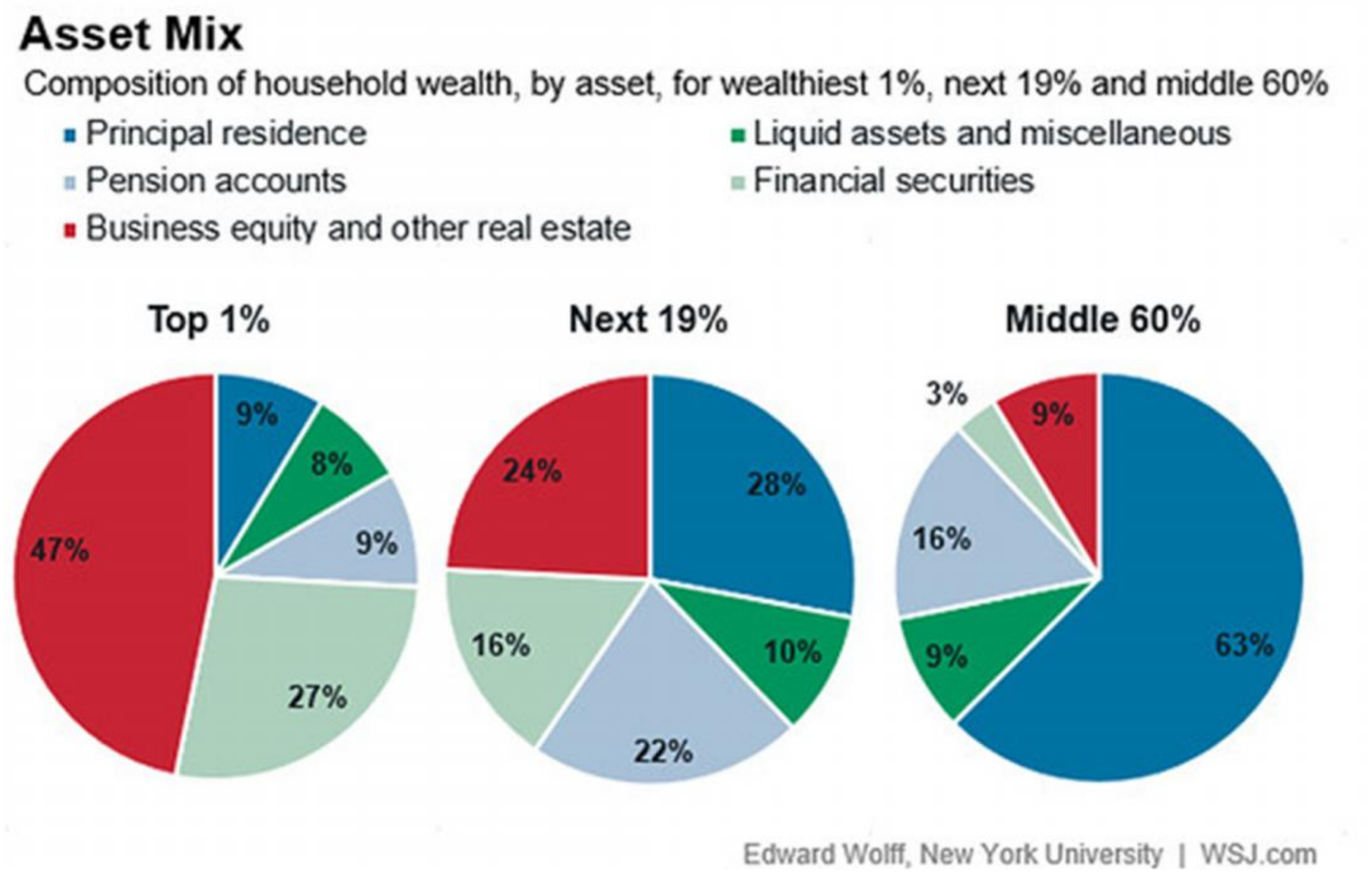


Building Collaboration

- Infrastructure to support collaboration
  - ✓ **Effective gift policies**
    - ✓ Clear guidance on what gifts and under what terms charity will accept gifts
    - ✓ Timely, efficient due diligence process
  - ✓ **Engage major or principal gift officer during evaluation**
    - ✓ Allies in planned giving undertake gift acceptance
    - ✓ MGO maintains primary relationship

Gifts of Assets

- The wealthy hold their wealth in assets, not cash



Building Collaboration

- Infrastructure to support collaboration
  - ✓ **Counting and valuation practices**
    - ✓ Generously inclusive fundraiser credit (joint credit)
    - ✓ Revocable gifts don’t feed to finance

- Valuing planned gifts
  - ✓ **Revocable**
    - ✓ Credible estimate of value discounted to present value
  - ✓ Discounted to present value using discount rate and life expectancy

Building Collaboration

- **Revocable bequest discounted present value**
  - ✓ For internal credit (face value for donor recognition credit)
  - ✓ Donor age 80, male
    - ✓ Table 2012 IAR
    - ✓ 11.5-year life expectancy
  - ✓ $250,000 estimated gift
  - ✓ Discount rate 3% (long term inflation rate)
  - ✓ **$180,550 present value internal credit**

Building Collaboration

- **Crediting irrevocable planned gifts**
  - ✓ Crediting for campaign purposes (not for fundraiser credit)
  - ✓ Value at income tax charitable deduction
  - ✓ Fair yardstick for comparing one gift to another
  - ✓ Not fair measure of actual future gift
  - ✓ Could further discount based on cash flow projection

Building Collaboration

Metrics to encourage collaboration

✓ Planned gift metrics for all fundraisers

1. Metric for planned gift referrals per year
2. Number of new legacy society members added
3. Number of joint visits/proposals with planned giving
4. Number of planned giving assists (cooperation on closing a gift with planned giving)

Creating Blended Gift Opportunities

- **What is a blended gift?**
  - ✓ New and different gifts
  - ✓ Traditional gift vehicles used in unique ways
  - ✓ Combinations of outright and planned gifts
    - ✓ Goal is to maximize donor potential
  - ✓ Gifts of assets to get donor to think beyond cash
  - ✓ Planned gift vehicles that generate current gifts

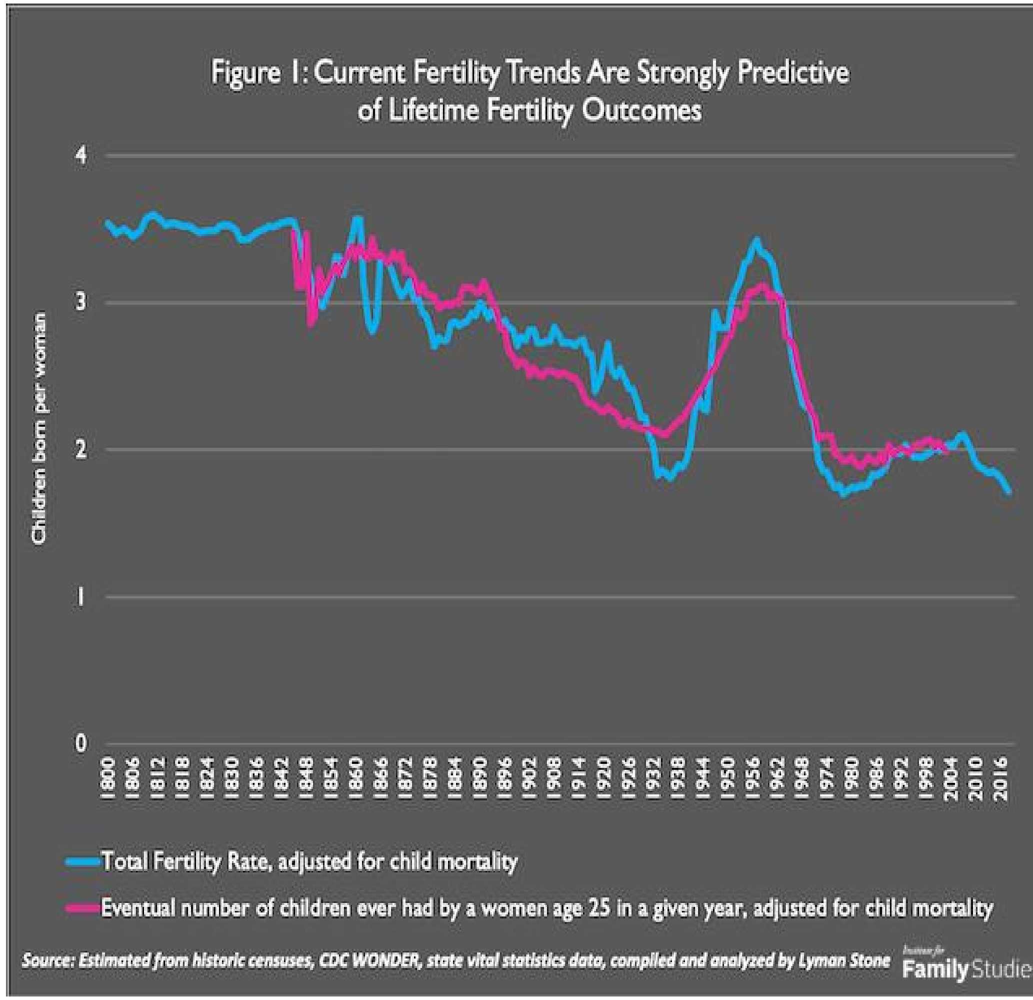
Creating Blended Gift Opportunities

- Bequests/Beneficiary designations
  - ✓ Control
  - ✓ Flexibility
  - ✓ Anonymity

- Revocable and contingent
  - ✓ Recognition tied to irrevocability
  - ✓ Unlikely gift if subject to contingencies

Creating Blended Gift Opportunities

- **Birth rates declining**
  - ✓ 24 children for each 1000 people in 1950
  - ✓ 12 children for each 1000 people in 2019
- **Childlessness Increasing**
  - ✓ 3.5 children per couple in 1800
  - ✓ Fewer than 2 children per couple in 2016



Gift Plans Using Blended Asks

- Combine a pledge with a bequest
  - ✓ The prototype blended gift

- Unique ways to structure pledges
  - ✓ Unequal payments
  - ✓ Back load payments
  - ✓ Front load payments
  - ✓ Use life income to make pledge payments

Gift Plans Using Blended Asks

- Don Howard, age 80
  - ✓ Predeceased spouse and two children
  - ✓ Spouse died from pulmonary disease
  - ✓ Annual gifts $1K to $5K, one gift of $10K
- $250,000 solicitation, named lectureship
  - ✓ Named in honor of wife
  - ✓ Lecture published in the Journal of Pulmonary Medicine

Gift Plans Using Blended Asks

- Deeply moved by concept
  - ✓ Can't afford at this time
  - ✓ Research suggests $5M in assets
- Why can't he afford?
  - ✓ Leaving a legacy for children
  - ✓ Maintaining lifestyle
  - ✓ Mostly IRA money (tax burdened)
  - ✓ Potential future medical expenses

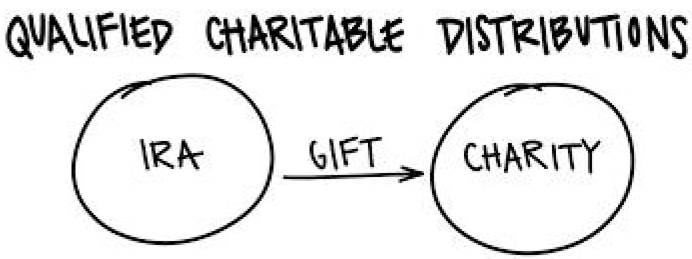
Gift Plans Using Blended Asks

- $125k (50%) in five-year pledge
- 5 equal installments of $25K, or
- Backload pledge

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

Gift Plans Using Blended Asks

- Could use QCD to make pledge payments
- $125K balance from IRA beneficiary designation
  - ✓ IRAs can only be distributed in percentages
  - ✓ Add back up provision to will for shortfall
- Consider irrevocable pledge
  - ✓ More to come on this



Gift Plans Using Blended Asks

- Dr. Watson, solicited for $1M campaign gift
  - ✓ Campaign gift from charitable lead trust
- He is experiencing “cash event”
- Needs large income tax charitable deduction

Gift Plans Using Blended Asks

- **Grantor lead trust**
  - ✓ Generates income tax, not gift or estate tax deduction
  - ✓ Donor pays tax on income and capital gain of lead trust
  - ✓ Whatever is left in lead trust comes back to donor
- No minimum or maximum lead trust payout
- No 10% minimum remainder interest test
- No minimum or maximum* lead trust term

  * Must comply with rule against perpetuities

Gift Plans Using Blended Asks

- Short term **grantor** charitable lead **annuity** trust
- Funded with $1,000,000 cash
- 5-year term
- 20% payout
  - ✓ $200,000 per year for 5 years
- 6% annual investment return
- Donor must pay any income tax or capital gain tax generated by trust

Gift Plans Using Blended Asks

- Dr. Watson 37% income tax rate
- $988,111 income tax charitable deduction
  - ✓ Subject to 60% AGI limit and 5-year carryover
- $365,501 income tax savings if gift fully deductible
- Lead trust pays 20% annually and earns 6% annually

Gift Plans Using Blended Asks

- Investment returns lower than lead trust payout

20% Grantor Lead Annuity Trust

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

Gift Plans Using Blended Asks

- Only $210,807 or $1M gift comes back to Dr. Watson
  - ✓ Why would he consider this gift?
  - ✓ Consider total economic benefit

- $567,308 total economic benefit to Dr. Watson
  - ✓ $365,501 income tax savings
  - ✓ $201,807 from lead trust

- Dr. Watson made $1M gift at a cost of $432,962!

Gift Plans Using Blended Asks

- **Life Income and a Pledge**
  - ✓ 5- to 7-year pledge to match donor's capacity
  - ✓ Planned gift in a CRT or CGAs
- 100% of gift principal unlikely from life income vehicle
  - ✓ CGA target residuum 50%, could even be zero
  - ✓ CRT principal fluctuates with investments, payout, and term
- Pair the life income gift with irrevocable pledge

Gift Plans Using Blended Asks

- Irrevocable pledge agreement (deferred pledge)
  - ✓ Pair with life income gift
- Obligates donors to pay during life or at death
- Unpaid balance is a debt of the estate
- Enforceable even if donor doesn't include charitable bequest in estate plan

Gift Plans Using Blended Asks

- Peggy and Pete Minetti, ages 80 and 83
  - ✓ Solicit $2M to underwrite a Junior Chair
  - ✓ A full chair is $3.5M
  - ✓ Donors want the full chair but it's a stretch

- Cash pledge for $2M
  - ✓ Paid in six annual installments

- $1.5M charitable remainder trust

Gift Plans Using Blended Asks

- Managing the life income gift and the pledge
  - ✓ Minettis could direct CRT payments toward pledge
  - ✓ Payments reported as income, but offsetting deduction
  - ✓ Could surrender CRT in favor of charity
- Pair with an irrevocable pledge agreement
  - ✓ Backstops CRT if remainder less than $1.5M

Gift Plans Using Blended Asks

- **Gifts of assets**
  - ✓ Charitable gift, so appreciated property attractive
    - ✓ Income tax charitable deduction
    - ✓ Capital gain tax avoidance
  - ✓ Charities have low risk tolerance
    - ✓ Policies should facilitate painless due diligence
    - ✓ When assets on the table, you are asking big

Gift Plans Using Blended Asks

- **Hattie Vallejo**
  - ✓ Three apartment buildings adjacent to campus
  - ✓ College needs student housing
  - ✓ FMV $1.5M
- Why doesn't college just buy the buildings?
  - ✓ $50K cost basis
  - ✓ $1.45M capital gain income
  - ✓ $345,100 capital gain tax (23.8% rate)
  - ✓ Net proceeds $1,145,900

Gift Plans Using Blended Asks

- Flip CRUT vehicle of choice with real estate
- 5% Flip CRUT, $1.5M valuation
  - ✓ $827,085 income tax charitable deduction
  - ✓ $306,021 income tax savings (37% +3.8% surtax)
  - ✓ $345,100 capital gain tax savings
  - ✓ **Cost of gift $848,879**
  - ✓ CRUT sells buildings to college for $1,500,000
  - ✓ Mrs. Vallejo receives income for life

Gift Plans Using Blended Asks

- Mrs. Vallejo could sell at a bargain price
  - ✓ Document FMV
  - ✓ Demonstrate charitable intent
- Sell buildings to college for $750,000
  - ✓ $750K cash payment to Mrs. Vallejo
  - ✓ $750K income tax deduction
    - ✓ $328,500 income tax savings (37% + 3.8% surtax)
  - ✓ $725K capital gain income (50% of capital gain)
    - ✓ $172,550 capital gain tax savings

Gift Plans Using Blended Asks

- **The Virtual Endowment**
  - ✓ Donor doesn't have assets to fully fund endowment
  - ✓ Donor makes annual gifts equal to spend rate on endowment
  - ✓ Endowment fully funded by estate gift from donor

Gift Plans Using Blended Asks

- Miriam Ewing, age 82
  - ✓ Wants to establish $1M named endowed fund in memory of her son
  - ✓ Uncomfortable with current $1M gift
  - ✓ Wants to see endowment awarded during her life
- Signs irrevocable pledge for $1M at death
  - ✓ Burden on Mrs. Ewing
  - ✓ Gift agreement provides no endowment if not fully funded

Gift Plans Using Blended Asks

- 5% spending rate on endowment
  - ✓ $1M endowment generates $50K a year
- Miriam gives $50,000 annually
  - ✓ Use the QCD to make tax-smart annual gifts
  - ✓ Satisfies RMD
  - ✓ No tax on IRA distribution
  - ✓ QCD not reported as income

Conclusion

- Blended gifts benefit major, principal, and planned giving
- Infrastructure can promote planned giving
  - ✓ Generous counting and recognition
  - ✓ Metrics that motivate collaboration
- Blend familiar vehicles
- Offer innovative giving techniques
- Maximize donor potential

Questions?

Still Have a Question?

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