Knowing a Planned Giver When You See One

Date: September 25, 2014

Time: 1:00 – 2:30 Eastern Time

Presenter: Jeff Lydenberg
Vice President, Consulting
PG Calc Incorporated

PG Calc
Invested in your mission

Agenda

- Gift annuity and charitable remainder trust donor behavior
- How to know the planned giver
  - Basic field identification
- Talking to and motivating prospects to action
- Donor assets and matching vehicles
- Case studies of planned givers

© 2014 PG Calc

Bequest Giving Behavior

- Estate taxes and charitable bequests
- Do the wealthy give at death to save on taxes?
  - 2001 exemption= $675,000 55% top rate
  - 2014 exemption= $5.34M 40% top rate
  - Unlimited estate tax charitable deduction
- 58% of high net worth households claim charitable bequest decision not affected by estate tax

Bequest Giving Behavior

- Number of estate tax returns declined 90% from 2001 to 2012
- Estate tax deductions declined 25.4% for same period
- Bequest giving increased 7.2%, 2012 to 2013
- Bequest giving not highly correlated with estate taxes

© 2014 PG Calc

Bequest Giving Behavior

- Census Bureau HRS study 1992 to 2012
- Three areas critical to charitable bequest decision
  - Trust in the charity
  - Presence or absence of heirs
  - Higher the net worth, higher likelihood of bequest
- 5.7% of general population with charity plans
- 9.4% of those over 50 making charitable gifts of $500 or more have charity plans

© 2014 PG Calc

Bequest Giving Behavior

- Importance of childlessness among over those over 50 donating $500 or more to charity
  - 50% of these donors have no children
  - 17.1% of these donors have children
  - 9.8% of these donors have grandchildren
- Australia: those with wills and no kids - 10X more likely to include charity
- Childlessness on the increase

© 2014 PG Calc

Gift Annuity Behavior

- Gift annuitants oldest donors
  - ACGA survey age 79 at first annuity
- Most are women
- Most are single
- Limited investment experience
- Concerned about outliving resources

Charitable Trust Behavior

- Wealthiest donors
- May not be regular annual fund donors
- May have made major gifts
- Ages vary widely
- More financially sophisticated than annuity donors
- More comfortable with financial risk

Life Income Donor Behavior

- Life income donors tend to be transactional
  - “Make a gift and help yourself”
- Avoid the language of contract, marketplace
- Use family words, not formal words
  - James (2013)
- Say “make a gift and get payments for life” not “enter into a contract, transfer property…”

Knowing the Planned Giver

- The planned giver is often, but not always, already a donor
- Consider broader connections
  - Volunteers
  - Event participants
  - Members
  - Grateful patients
- Note connection information in a useable format in the database

Knowing the Planned Giver

- Basic identification
- Know the field marks
  - Age
  - Giving/connection to charity
  - Presence or absence of heirs
  - Educational level
  - Life events

Knowing the Planned Giver

- **Age**
  - Commercially available with some accuracy
  - Membership applications
  - Class year
  - Surveys
- Charity first added to plans in 40’s and 50’s
- Must be in the last will
- Plans can be changed

© 2014 PG Calc

Knowing the Planned Giver

- **Giving or other connections**
  - Some planned gifts come from those with no obvious connection
  - Charities with broad missions attract general support
    - Salvation Army
    - Disease charities
  - Connections, giving frequently not in donor database
- Long giving history indicates bequest likelihood
- Higher average gifts from bequest givers

© 2014 PG Calc

Knowing the Planned Giver

- **Presence or absence of heirs**
- Bequest giving raises charity to status of family
- Charity acts as a synthetic family
- Those without children dramatically more likely to make charitable bequest
- Increasing childlessness in U.S.
- Can you capture childlessness in your database?

© 2014 PG Calc

Knowing the Planned Giver

- **Educational Level**
- Higher educational achievement = higher likelihood of a charitable bequest
- Bachelor's more likely than high school only
- Graduate degree more likely than bachelor's only
- Challenging to capture
  – Note credentials
  – Can you capture in a searchable field?

Knowing the Planned Giver

- Life Events
  - Planned gifts often result from events in donors life
- Changes that destabilize donor's life
  - Approaching death (cancer diagnosis for example)
  - Becoming a widow or widower
  - Divorce
  - Grandchildren
  - Increasing assets
- When death becomes real

© 2014 PG Calc

Knowing the Planned Giver

- **What about capacity?**
- Capacity is not the only variable to consider
- Certainly must have sufficient assets to make gift
- If field marks present, capacity important
- Wealth not always visible
- Capacity increases virtually if no children

Talking to and motivating prospects

- Starting the conversation
- Avoid technical talk
- Open-ended questions
- Let the donor tell her story
  - "Why did you make your first gift to us?"
  - "How did you get involved with us?"
  - "Why did you choose us?"

© 2014 PG Calc

Talking to and motivating prospects

- Inertia is a planned gift's worst enemy
- People avoid difficult discussions
  - Death
  - Family
  - Money
- Make the planned gift decision easy or exciting

© 2014 PG Calc

Talking to and motivating prospects

- Beneficiary designations
- Wills and trusts expensive to change, raise emotional issues
- Beneficiary designations control distribution of:
  – Qualified retirement plans
  – Savings bonds
  – Commercial annuities
  – Most bank and financial accounts can be controlled by designation

© 2014 PG Calc

Talking to and motivating prospects

- Create a sense of urgency to complete the planned gift
- Legacy Challenge case study
  - Every notification of estate commitment triggered $1,000 immediate gift to charity
  - Challenge generated 128 new commitments
  - 83% increase in notifications compared to typical year

© 2014 PG Calc

Knowing a planned giver by what they own

- Character of planned giving assets
  - **Illiquid**, not easily converted to cash
  - **Appreciated in value**, sale could generate 23.8% tax
  - **Non-income producing**, valuable assets but no income
  - **Income in respect of a decedent**, IRD - subject to income tax at owners death

Knowing a planned giver by what they own

- **Real Estate**
  - Capital gain on sale, perhaps no income, illiquid
- **Retirement plans**
  - IRD assets
- **Publicly traded securities**
  - Capital gain on sale, perhaps income on sale
- **Closely held business**
  - Capital gain on sale, illiquid, no income

© 2014 PG Calc

Matching donors and gift vehicles

- **Bequests**
  - Potentially all supporters, all ages
  - Reality is less than 10% will include a bequest and most will do so late in life
  - Driven by emotional connection to charity
  - Regular annual fund donors
  - Childless more likely to make a bequest
  - Highly educated more likely to make a bequest
  - Flexibility and privacy appeal to many

© 2014 PG Calc

Matching donors and gift vehicles

- **Gift Annuities**
  - Oldest donors, average age 79 at first gift
  - Cautious
  - Concerned about outliving resources
  - Relatively uncomplicated gift
  - Not all charities should offer annuities
  - Guaranteed payments

© 2014 PG Calc

Matching donors and gift vehicles

- **Charitable Remainder Trusts**
  - Complicated gift requiring attorney involvement
  - Selection of trustee to invest and administer important
  - Donors typically younger than CGA donors
  - Experienced investors
  - Comfortable with risk
  - Substantial assets

Bequest Case Study

- Six figure bequest to Midwestern children's hospital
- No discernable connection to donor
- **Lessons learned?**
  - Lesson is not "You just never know."
  - Capture data from other sources in your database
  - Continuity of recordkeeping important
  - Bequest marketing worked in this case

Gift Annuity Case Study

- Mrs. Sylvester, age 75
- Alumna of nearby college
- Long time annual fund donor
- Attends college theater and musical productions
- Involved in colleges life-long learning program
- Recently widowed

© 2014 PG Calc

Gift Annuity Case Study

- Never made a major gift
- Solicited for $10,000 gift
- Request is to support new Peace and Justice Center at the college
- Gift is to be in memory of donor’s late husband
- Can’t afford to make $10,000 gift

© 2014 PG Calc

Gift Annuity Case Study

- 10 year T note yielding 2.59%
- 5 year CD yields 2.3%
- Mrs. Sylvester has a $50,000 CD coming due
- ACGA rate for age 75 is 5.8%
- $2,900 payment each year for life
- Charitable deduction plus most of payment tax-free

© 2014 PG Calc

Gift Annuity Case Study

- Mrs. Sylvester balks at the gift
- **Lessons learned?**
  - Recent recession has shaken many people
  - Dow at record levels, but no guarantees
  - Key objection: can't get her money back
  - Not verbalized, but recent death of husband has left her unsure, cautious

© 2014 PG Calc

CRT Case Study

- Michael Sullivan M.D., Elaine Sullivan, J.D.
- 76 and 74, one child
- Alums of same ivy league university
- Intermittent annual fund donors
- Have made four and five figure gifts totaling $25,000
- Enjoy managing their substantial stock portfolio

© 2014 PG Calc

CRT Case Study

- Dr. Sullivan solicited for $250,000 50th reunion gift
- Sullivan’s offer $150,000 gift
- MGO wants to get Sullivans to reach stretch goal
- PGO suggests a charitable remainder unitrust

CRT Case Study

- 5% CRUT funded with $250,000 stock gift
- $12,500 in year one
- $13,671 in year ten assuming 6% growth
- $300,000 to the college in sixteen years, also assuming 6% growth
- Sullivans self-trustee and bank handles administration

© 2014 PG Calc

CRT Case Study

- Sullivans love the idea
- **Lessons learned?**
  - Management of the CRUT investments appeals to these donors
  - Equity with those willing to donate assets now
  - Self-trusteeing appealing at 76 and 74
  - Not as attractive at 96 and 94
  - Bank can take over investment management later
  - Bank manages accounting and tax returns for trust

© 2014 PG Calc

Questions and Answers

Still Have a Question?

Contact: Jeff Lydenberg

Vice President, Consulting

PG Calc Incorporated

E-mail: jeff@pgcalc.com